

For Reference

NOT TO BE TAKEN FROM THIS ROOM

Ex LIBRIS
UNIVERSITATIS
ALBERTAENSIS



THE UNIVERSITY OF ALBERTA

DEVELOPMENT OF SASKATCHEWAN CREDIT UNIONS: CONFLICT AND CHANGE

by



NORMAN A. BROMBERGER

A THESIS

SUBMITTED TO THE FACULTY OF GRADUATE STUDIES

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE

OF MASTER OF ARTS

DEPARTMENT OF SOCIOLOGY

EDMONTON, ALBERTA

SPRING, 1971



Digitized by the Internet Archive
in 2022 with funding from
University of Alberta Libraries

<https://archive.org/details/Bromberger1971>

Thesis
1971
12

UNIVERSITY OF ALBERTA

FACULTY OF GRADUATE STUDIES

The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies for acceptance, a thesis entitled "Development of Saskatchewan Credit Unions: Conflict and Change" submitted by NORMAN A. BROMBERGER in partial fulfilment of the requirements for the degree of Master of Arts.

ACKNOWLEDGEMENTS

I would like to express my appreciation to the many people who assisted me in carrying out this study. As well as to my wife, Deanie who typed and retyped several drafts of the thesis.

I particularly would like to express my thanks to all my friends in the "co-operative movement" in Saskatchewan. This study, hopefully in some small measure acknowledges their kindness and help.

Dr. A.K. Davis, Dr. C.W. Hobart and Mr. L. Hetland gave many helpful suggestions during the development of the study which made it a valuable research experience to me.

Finally, I gratefully acknowledge the financial assistance of a Central Mortgage and Housing Corporation Fellowship which made the work leading to the thesis possible.

ABSTRACT

Credit unions in Saskatchewan originated as a result of the scarcity of credit and the long history of conflict over resources and/or positions arising out of Canadian development policies.

The settlement and development of Western Canada was promoted as a means to defend the western plains from annexation to the United States and to develop eastern commerce and industry. This purpose is clearly stated in the utterances of the politicians responsible for national policy at the time of Confederation. The building of the transcontinental railway, the tariff policy as well as the inducements to settle the plains region all were intended to serve these purposes. In the process, the Canadian agricultural industry always was subservient to the needs of other industrial and commercial development.

The farmers of Saskatchewan, like their farm neighbors in the other Prairie Provinces were constantly involved in a conflict for the control of resources and/or positions with eastern business and commerce. The solution of grain storage and transportation problems brought marketing problems to the fore. The farmers produced the grain but others controlled the storage, transport and marketing facilities. The interests of the farmers always seemed to come last.

Farm development capital was always scarce but in the drought and depression of the 1930's, credit of all kinds became virtually non-existent. As a result of a desperate need for credit and of

their experience in using the co-operative form of organization, the people of Saskatchewan formed credit unions as a way to gain control of the scarce resource of credit. These organizations grew rapidly and they became increasingly complex. The leaders of local credit unions formed a number of central organizations to handle tasks beyond the power of any single unit. In addition, services were expanded to give members access to other "banking" services such as chequing.

Their rapid growth, both in size and services offered, brought them into direct conflict for the control of resources and position with other financial intermediaries especially the chartered banks. This conflict gradually became institutionalized into competition over savings and loan services with the result that at least some of the conflict became internalized. The internal conflict revolves around the need for adopting rational business practices to meet competition versus direct member participation and control. The resolution of this conflict will direct and shape the future development of credit unions.

TABLE OF CONTENTS

| Chapter | Page |
|---|------|
| I. CONFLICT THEORY AS THE RESEARCH PERSPECTIVE | 1 |
| 1. Complex Organizations | 2 |
| 2. Credit Unions As Complex Organizations | 4 |
| 3. Two Perspectives in Social Organization | 6 |
| 4. The Consensus Perspective | 9 |
| 5. The Conflict Perspective | 11 |
| Footnotes | 13 |
| II. THE PERSPECTIVE APPLIED TO THE STUDY | 17 |
| 1. The Conflict Perspective | 17 |
| 2. The Social Process Perspective | 22 |
| 3. The Perspectives Combined | 23 |
| 4. The Theoretical Perspective Applied to The Empirical Case | 25 |
| Footnotes | 29 |
| III. THE HISTORICAL CONTEXT OF SOCIAL CONFLICT IN SASKATCHEWAN | 32 |
| 1. The Canadian Reaction to "Manifest Destiny" . | 32 |
| 2. Canada Expands Westward | 34 |
| 3. National Development Policy | 35 |
| 4. Settlement of the West | 37 |
| 5. The Origin of Conflict | 41 |
| 6. Other Methods of Handling Conflict | 50 |
| 7. The Historical Context of Conflict | 52 |
| Footnotes | 54 |
| IV. THE DEVELOPMENT BACKGROUND OF SASKATCHEWAN CREDIT UNIONS | 58 |
| 1. Role of Development Capital | 58 |
| 2. Drought and Depression | 60 |
| 3. Credit Union (Co-operative) Principles and Practices | 66 |
| 4. Credit Union Principles and Practices in Saskatchewan | 72 |
| 5. The Structure of Saskatchewan Credit Unions . | 75 |
| 6. General Development Trends | 79 |
| Footnotes | 84 |

| Chapter | Page |
|--|------|
| V. THE GROWTH OF CREDIT UNIONS IN SASKATCHEWAN | 88 |
| 1. The Basis for Growth | 88 |
| 2. Credit Unions as an Alternative Source of Credit | 93 |
| 3. Credit Union Growth in Saskatchewan | 100 |
| 4. The Conflict Over Chequing | 103 |
| 5. The Conflict Over Savings and Consumer Loans. | 108 |
| 6. Another Threat From Outside | 116 |
| 7. The Growth Pattern | 120 |
| Footnotes | 121 |
| VI. SASKATCHEWAN CREDIT UNIONS RE-ORGANIZE | 126 |
| 1. Credit Union Re-structuring | 127 |
| 2. Merger of Credit Union Central Organizations. | 129 |
| 3. Credit Union Centralization | 133 |
| 4. Local Versus Central Control | 141 |
| 5. Credit Union Member Attitudes | 145 |
| 6. Ideological Conflict | 157 |
| Footnotes | 162 |
| VII. CONCLUSIONS | 165 |
| 1. The Development Dilemma | 166 |
| 2. The Dilemma and Organizational Theory | 168 |
| 3. Conceptual and Methodological Refinements | 171 |
| 4. Further Research | 172 |
| Footnotes | 175 |
| BIBLIOGRAPHY | 176 |

LIST OF TABLES AND CHARTS

| | Page |
|--|------|
| Chart 1.A The Assumptions of Integration and Conflict Theory | 8 |
| Table 3.1 Population Growth in Saskatchewan and the Prairie Provinces 1901-1966 | 38 |
| Table 3.2 Gross Value of Commodity Production in Saskatchewan 1959-1968 | 39 |
| Table 3.3 Proportion of Farm Population in Prairie Provinces and Canada 1931-1966 | 40 |
| Table 4.1 Average Farm Wheat Price in Dollars Per Bushel 1920-1945 | 62 |
| Table 4.2 Saskatchewan Wheat Production in Bushels 1925-1940 | 65 |
| Table 5.1 Credit Union Loans in Saskatchewan 1937-1947 . | 96 |
| Table 5.2 Indices of Outstanding Loans for Credit Unions Saskatchewan and Canada and for Small Loan Companies and Chartered Banks in Canada 1951-1968 | 98 |
| Table 5.3 Selected Aspects of Credit Union Growth in Saskatchewan 1937-1969 | 101 |
| Table 5.4 Interest Rates for Selected Public and Private Borrowing Canada 1960-1969 | 110 |
| Table 5.5 Relative Consumer Loan and Public Savings Holdings in Canada by Institutions 1951-1969 | 112 |
| Table 5.6 Credit Unions Liabilities in Saskatchewan 1961-1969 | 114 |
| Table 6.1 Cash Inflows in Savings and Deposits all Saskatchewan Credit Unions 1966-1969 | 143 |
| Table 6.2 Cash to Asset Per Cent by Ratios for all Saskatchewan Credit Unions 1966-1969 | 143 |

CHAPTER I

CONFLICT THEORY AS THE RESEARCH PERSPECTIVE

The purpose of this study is to describe the role of conflict in the adjustment and adaptive process of a large, financial-service co-operative organization. This chapter will outline the theoretical perspective used in studying the development of this complex organization. The organization to be studied is made up of nearly three hundred Saskatchewan credit unions and their central organizations.

Conflict is viewed as antithetical to the harmony and stability stressed in the perspective which holds consensus and integration to be the basis of organizational functioning. In order to clarify the conflict theory perspective, it will be compared and contrasted to the integration or consensus theory perspective. It will be shown that the conflict perspective, even though it is a partial view of social reality, is an essential counterbalance to excessive emphasis on consensus and integration.

To show that conflict is part of ongoing social process, the study will outline the historical background of this co-operative organization's development. The purpose will be to show that historical consequences helped to shape the development of producer and consumer co-operatives and led to the formation of credit unions as locally owned and controlled financial intermediaries in the Province of Saskatchewan. In order to carry out the proposed description of conflict relations in this complex organization, the following sections of this chapter are used to develop the conceptual framework of the study.

1. COMPLEX ORGANIZATIONS

Complex organizations are not new social phenomenon for they have existed in a variety of forms throughout the recorded history of man. However, their number, size, scope and pervasiveness have a comparatively recent origin. These latter qualities along with their need for conformity and similarity are partially responsible for much of the impersonality and sterility found in complex organizations in urban-technological societies.

Max Weber stated that bureaucracies (complex organizations) had achieved the highest degree of technical superiority known to man¹ but he also expressed his serious reservations as to their effect on individuals. He felt it was necessary to oppose the parallel trends of increasing rationalization and bureaucratization or, "the world could one day be filled with nothing but little cogs, little men clinging to little jobs and striving toward bigger ones" and that it was necessary "to keep a portion of mankind free from the parcelling-out of the soul, from this supreme mastery of the bureaucratic way of life."²

Even if Weber's pessimistic view of complex organizations is exaggerated, it is obvious that they play an ever increasing role in the life of the individual in urban-technological societies. It is also obvious that they have raised as many problems as they have solved.

Thus although complex organizations have made it possible to carry out large scale social tasks, they have also had many unintended consequences and even many positively dysfunctional consequences.

Merton, for example, discusses two kinds of dysfunctional consequences. First, he refers to the trained incapacity or rigidity resulting from the training emphasis which leads to inappropriate responses in changed conditions. Secondly, there is the displacement of goals.³ The means of achieving a goal may displace the goal to the point where rules and regulations developed to make the goal attainable displace the goal or purpose of the organization.

It is in dealing with factors such as these that Crozier suggests bureaucracies must first be understood before anything can be done about the problems they create.⁴ By examining the conflict process in organizations, this study is attempting to extend the understanding of social relations in complex organizations. Since it is a case study, generalization will not be possible.

The concept of complex organization will be used to denote a particular type of social organization. It will be understood to mean a social collectivity formally organized to achieve a set of particular goals, ends or social tasks.⁵ Easton has stated two essential characteristics of complex organizations (he calls them parapolitical systems). First, they are elements or sub-systems of more inclusive systems and second, they have less power to regulate differences than do the more inclusive social organizations.⁶ Implicit in the first point is the fact that complex organizations are subject to influences from the environment and in turn, influence the environment. It is the same as Thompson's reference to an open system⁷ or the view expressed by Crozier that organizations must cope with uncertainty.⁸ The second point raises the obvious consideration that organizations are con-

strained or limited in their activities by outside influences.

2. CREDIT UNIONS AS COMPLEX ORGANIZATIONS

Credit unions are complex organizations although like other organizations they have certain distinctive features. They are co-operatives being user owned and controlled and as such, organized on democratic principles. In addition, they are voluntary organizations.

This last characteristic is a matter of degree, for all organizations have certain voluntary aspects. It is generally held that mutual benefit associations, service and recreation clubs, labor unions and co-operatives afford a choice for entrance and exit for potential or actual members. Credit unions, except for minimum rules defining desirable membership characteristics, allow comparatively open choice for exit and entry. Yet this distinction cannot be carried too far, for even the all inclusive state affords some choice through immigration and ultimately the choice of death over compliance.

The major criterion of the voluntary nature of an organization is the degree of sacrifice or loss suffered to leave or enter. The less the loss or sacrifice suffered, the more open is the choice. Although pecuniary or material loss would usually be major considerations, emotional attachment or positive value orientation may be equally important. In credit unions, pecuniary costs would usually be low but emotional attachment or positive value orientation might be high depending on the degree of commitment to co-operative ideology. Since voluntary organizations like credit unions have little coercive power to enforce participation, they must generally either offer better

service, emotional support, relative social position or a combination of all to retain the loyalty of the member.

The effectiveness of democratic control in organizations like the credit unions has frequently been under question - even internally. Craig has carried out an exploratory study of democracy in an agricultural marketing co-operative.⁹ In his view access to positions of control is of key significance in democratic control. Not only can a member participate in democratic decision making through participation in meetings, elective office and informal contact, but in a voluntary organization he may register a dissenting vote by leaving the organization.

There is always the question of whether or not the member is concerned about participation, particularly if he gets the kind of service or return he expects from his organization or at least service similar to that given by a comparable organization. McCrorie, in examining the Saskatchewan Farmers Union from a social movement perspective suggests that participation increases during periods of surge or up-swing when there is a focusing on a particular issue or goal.¹⁰ This implies that the apathy of stability is replaced by a surge of activity in a crises.

Ribert Michels raised the issue of the potential for oligarchic control¹¹ in democratically oriented organizations.¹² Studies in labor unions suggest that his "iron law of oligarchy" is generally true of these organizations. The few exceptions suggest that they are isolated instances rather than the rule and that those voluntary organizations which are democratic have legitimized intra-institutional conflict.¹³

A number of schools in organizational theory hold that conflict

is dysfunctional.¹⁴ It can certainly be dysfunctional but there is no inherent necessity that it must be, for it can have positive effects. From the perspective of certain democratic theories, it has been held that the institutional conflict of party politics is a necessary condition of democracy.

3. TWO PERSPECTIVES IN SOCIAL ORGANIZATION

A variety of theoretical perspectives have been developed to aid in understanding social organization.¹⁵ This study does not propose to offer any additional theories nor to critically assess the existing ones. Instead it will contrast and compare two perspectives which are implicit in these theories.

Dahrendorf, in discussing what he calls the coercion theory of society states the history of Western political thought has been divided between two conflicting views.¹⁶ He claims that these two views are attempts to explain the basis of societal cohesion and order. Both views are known by various names, so that the names used here are a matter of personal preference. Conflict theory emphasizes constraint and force as the basis of societal cohesion. Integration theory, on the other hand, emphasizes consensus and agreement. He holds that neither view can deny the existence of the other since both are partial views of reality with neither exclusively valid. In fact in his view, they are complementary aspects of social structure.¹⁷

Although this study will concentrate on the conflict or coercion perspective as the basis for the analysis which follows, it does not

deny the validity or reality of the integration or value consensus perspective. The emphasis on the conflict perspective in this study is viewed as an attempt to counterbalance the tendency in North American sociology to emphasize the integration perspective. As Moore suggests, "It must be noted, however, that attention to conflict is properly viewed as a corrective to social system models and not as a substitute."¹⁸

Olsen feels these two perspectives should be viewed as complementary rather than as alternative views of reality.¹⁹ Horowitz states an excellent case for reducing a one-sided emphasis on either perspective and suggests combining them in a theory of co-operation.²⁰ Van Den Berghe, in fact, attempts in a preliminary way to show the way toward a synthesis of these two perspectives through their complementary aspects. He states, "It is not enough to say that two theories are complementary and can be used ad hoc for different purposes; one must also show that they are reconcilable."²¹ In pointing out four major areas of overlap, he establishes the basis for such synthesis.²² This study will not attempt such a synthesis in any direct sense although it acknowledges both perspectives while emphasizing one.

Before beginning separate analysis of each of these two theoretical perspectives, a brief comparison will be made of the assumptions underlying each perspective.

CHART 1.A

THE ASSUMPTIONS OF INTEGRATION AND CONFLICT THEORY

| CONFLICT THEORY | INTEGRATION THEORY |
|---|--|
| <p>1. CHANGE IS EVER PRESENT IN SOCIAL ORGANIZATIONS</p> <p>Since conflict is present in all social relations and since conflict relations lead to change in social structure, change is always and everywhere present.</p> | <p>1. SOCIAL ORGANIZATION STRUCTURE IS STABLE</p> <p>Socialization and social control are fundamental processes for maintaining equilibrium in a social system or for maintaining certain constancies of patterns and hence general stability.²³ Some innovation is compatible for a system's stability while others such as conflict are not.²⁴</p> |
| <p>2. CONFLICT AND DISSENSUS ARE PRESENT IN ALL SOCIAL ORGANIZATIONS</p> <p>Power relations are an underlying fact of all social organization and they result in conflict and dissensus.²⁵</p> | <p>2. ELEMENTS ARE WELL INTEGRATED IN SOCIAL ORGANIZATION</p> <p>Values and expressive symbols, despite social deviance, tend to integrate the elements of an organization.²⁶</p> |
| <p>3. HETEROGENEITY OF SOCIAL ORGANIZATION</p> <p>There is no direct reference to heterogeneity, however it is assumed the elements of social organization are diverse and moving toward disintegration and change.</p> | <p>3. HOMOGENEITY OF SOCIAL ORGANIZATIONS</p> <p>Although the assumption is not stated in terms of homogeneity, there is held to be a fundamental unity (organic wholeness) in the social organization.</p> |
| <p>4. EVERY SOCIAL ORGANIZATION IS BASED ON COERCION OF SOME MEMBERS BY OTHERS</p> <p>Coercion, constraint or dominance is the cohesive force in social organization.</p> | <p>4. EVERY SOCIAL ORGANIZATION IS BASED ON A CONSENSUS OF VALUES AMONG MEMBERS</p> <p>Value consensus is the cohesive force in social organization.</p> |

This table is adapted from the work of Ralf Dahrendorf, Class and Class Conflict in Industrial Society, (Stanford, Stanford Univ. Press, 1959), Pp. 161-162, including certain additions and modifications.

4. THE CONSENSUS PERSPECTIVE

As has been pointed out earlier, neither perspective can deny the validity of the other perspective. Consensus theory does not deny differences of interest, however, North American sociology in the past two or three decades has been conducted as though consensus of values was the only valid criteria to use in studying social organizations. Talcott Parsons has been a major proponent of this view. At one point he states:

"The problem of order, and thus the nature of the integration of stable systems of social interaction, that is of social structure, thus focuses on the integration of the motivation of actors with the normative cultural standards which integrate the action systems in our context interpersonally.²⁷

In another place, he holds that once a social system passes beyond a limited range of necessary integration and effectiveness, it will end in dissolution.²⁸

Lipset, in using the consensus perspective, more openly acknowledges the conflict perspective but nevertheless emphasizes integration and stability. Conflict becomes a competition for office among political elites. This competition for office by means of consensus on values or the "rules of the game" becomes a means to maintain stability or order. The competition for office is a means of maintaining democracy which, it must be remembered, is just one form of social organization and not the only form of social organization.²⁹ Although Thompson refers to complex organizations rather than social organizations, he summarizes Lipset's position as well as the position of many management relations theorists:

"Conflict in organizations is usually considered by students of organizations and by administrators in our culture as something to be avoided or eliminated. This reflects a popular preoccupation with morale, human relations and co-operation and the general value that peace is good and conflict is bad."³⁰

The view that stability and general agreement on values or the rules of the game are basic to democracy denies the reality of conflict as well as assuming democracy to be the only conceivable form of social organization. Pluralistic competition between elites, according to such rules of the game, is one ideal conception of democracy. It must be kept in mind that the rules of the game, however, are frequently set by the victors or ruling group of the time. Constituency gerrymandering is a case in point in democratic societies. In other words, Lipset is not really dealing with realistic stratification conflict whatever else he may be dealing with.

It is not difficult to guess at the reasons for this emphasis on consensus and integration in North American sociology of the past two or three decades. Newcombe points out that Wirth, in the Presidential Address to the American Sociological Society in 1947, stressed the urgency of developing world wide consensus in a world with the potential to destroy itself. He goes on to point out that for individuals as well as groups, consensus attainment is an essential social process to achieve integration, stability and strain reduction in social relations.³¹ Such one-sided emphasis on consensus as an ideal social state may be acceptable as an ideological position but it can hardly be viewed as sociologically valid. The acknowledgement of conflict in human relations and efforts to learn to handle it are just as valid.

Consensus or social integration, if taken to extremes, may lead to both social inertia and totalitarianism.

5. THE CONFLICT PERSPECTIVE

Conflict is fundamentally a matter of the struggle for the control of resources and/or positions³² in any form of social organization.

Lipset clearly touches on one fundamental aspect of conflict in Political Man. Status, or more accurately, stratification systems are the result of and set the stage for conflict over the control of resources and positions. He states:

"The concern with equality of status has fostered or supported the objective equality of opportunity, of achievement for all. Though men may differ in their positions in the stratification structure, their children should not be deprived of the opportunity to secure the best the society offers by the inferior position of their parents."³³

Lipset is describing the rationalization, justification or ideology that a particular kind of social organization may adopt in relation to resource or position conflict. He does imply that those at lower levels of the system are justified in challenging those above as well as struggling to replace them in a particular position in this social system. Yet somehow this conflict must never become excessive or it will destroy the system. From an empirical point of view, the sociologists preference for a particular kind of social organization can hardly have any bearing on theory or fact. The theoretical perspective used here does not deny that conflict may have varying intensity. It begins with conflict in what is assumed to be its fundamental form - some kind of struggle between two or

more parties, groups, or other units to control resources and/or positions.

In summary, the chapter has been an attempt to offer a general perspective for carrying out the study. Although the main purpose of the study is to describe conflict relations as part of the development process of one complex organization, there is a subsidiary purpose. It is to further understanding of social relations in complex organizations. As has been suggested earlier, integration theory has been used for the same purpose in other studies.³⁴ This study uses the conflict perspective to achieve the same purpose. It is developed in greater detail in the next chapter.

FOOTNOTES

¹Max Weber, "Bureaucracy" in H.H. Gerth & C. Wright Mills (Trans. & Ed.), From Max Weber: Essays in Sociology, (New York, Oxford Univ. Press, 1958), P. 224.

²Max Weber, "Some Consequences of Bureaucratization" in Lewis A. Coser & Bernard Rosenberg (Eds.), Sociological Theory: A Book of Readings, (New York, The MacMillan Co., 1957), P. 473.

³Robert K. Merton, Social Theory and Social Structure, (Rev. & Enlarged Edition, New York, The Free Press of Glencoe, 1957), Pp. 198-199.

⁴Michel Crozier, The Bureaucratic Phenomena, (Chicago, Univ. of Chicago Press, 1964), Pp. 2, 8.

⁵Sources Include: James D. Thompson, Organizations in Action, (New York, McGraw-Hill Book Co., 1967), P. 10. AND: Chester I. Barnard, The Function of the Executive, (Cambridge, Mass., Harvard Univ. Press, 1968), P. 3. AND: Amitai Etzioni, A Comparative Analysis of Complex Organizations, (New York, The Free Press, 1961), P. xi.

⁶David Easton, A Framework For Political Analysis, (Englewood Cliffs, N.J., Prentice-Hall Inc., 1965), Pp. 52-54.

⁷James D. Thompson, Op. Cit., P. 10.

⁸Michel Crozier, Op. Cit., Chap. 6.

⁹John G. Craig, A Co-operative Democracy: A Case Study of Saskatchewan Wheat Pool, (Unpublished M.A. thesis, Seattle, University of Washington, 1969), Especially Chap. 1.

¹⁰James N. McCrorie, In Union is Strength, (Saskatoon, Centre For Community Studies, 1964), Pp. 22-23.

¹¹Robert Michels, Political Parties, (New York, Collier Books, 1962).

¹²Many authors studying voluntary organizations suggest democracy is, at least, indirectly operative since these voluntary organizations play a role in the larger political (pluralist) system of the whole society. Yet in most cases, the voluntary organization is under the control of an entrenched oligarchy. SEE FOR EXAMPLE: Joel S. Seidman, The Brotherhood of Railway Trainmen: The Internal Political Life of a National Union, (New York, John Wiley & Sons Inc., 1962). William A. Leiserson suggests unions have a role in democratizing the autocratic powers of employers but this hardly implies that the union is democratic. American Trade Union Democracy, (New York, Columbia Univ. Press, 1959), P. 54; and Alice H. Cook argues that it doesn't matter whether the union is democratic or not as long as it is successful in meeting its economic function. Union Democracy: Practice and Ideal, (Ithica, N.Y., Cornell Univ., 1963), P. 16. In a review of the literature on union democracy, C. Peter Magrath concludes that democracy in labour unions is generally not workable. "Democracy in Overalls: The Futile Quest for Union Democracy" in Industrial and Labor Relations Review, Vol. 12, July, 1959. Pp. 503-525. Ostergaard and Halsey, with minor variations, come to the same conclusions on co-operatives. G.H. Ostergaard & A.H. Halsey, Power in Co-operatives, (Oxford, Blackwell, 1965), Pp. 205, 215, 220-222.

¹³Seymour Martin Lipset, Union Democracy, (Garden City, N.Y., Doubleday & Co. Inc., Anchor Books, 1956), SEE PARTICULARLY: Chaps. 10 to 13.

¹⁴The human relations approach to organizations as developed by Elton Mayo in the Hawthorne studies emphasized co-operation, equilibrium and harmony on the basis of management manipulation, Nicos P. Mouzelis, Organisation and Bureaucracy, (Chicago, Aldine Publishing Co., 1967), Pp. 101-103. Robert Presthus states that organizational leaders see organizations as rational with a highly disciplined and cohesive common purpose and consequently see conflict as dysfunctional in The Organizational Society, (New York, Random House Vintage Books, 1962), Pp. 57-58, 290.

¹⁵Marvin E. Olsen, for example, lists six theories of social organization: exchange, interaction, ecological, power, value and normative theory in The Process of Social Organization, (New York, Holt, Rinehart and Winston, 1968), Chap. 15, Pp. 239-260.

¹⁶Ralf Dahrendorf, Class and Class Conflict in Industrial Society, (Stanford, Stanford Univ. Press, 1959), P. 158.

¹⁷Ibid., Pp. 157-159.

¹⁸Wilbert E. Moore, Order and Change, (New York, John Wiley & Sons, Inc., 1967), P. 294.

¹⁹Marvin E. Olsen, Op. Cit., Pp. 166-169.

²⁰Irving Louis Horowitz, in an excellent, though somewhat rhetorical presentation states some of the failings of emphasizing one perspective. That he is particularly critical of the present one-sided emphasis on consensus theory is not of immediate relevance to the agreement for synthesis of those two theories. "Consensus, Conflict and Cooperation: A Sociological Inventory" in Social Forces, No. 41, December, 1962, Pp. 177-188.

²¹Pierre L. Van Den Berghe, "Dialectic and Functionalism: Toward A Theoretical Synthesis" in American Sociological Review, Vol. 28, No. 5, October, 1963, P. 701.

²²Ibid., Pp. 701-705.

²³Talcott Parsons, The Social System (New York, The Free Press of Glencoe, 1951), Pp. 481, 482.

²⁴Ibid., P. 133.

²⁵Irving Louis Horowitz, Op. Cit., Pp. 178-180.

²⁶Talcott Parsons, Op. Cit., Pp. 133, 136, 164, 165, 167-169.

²⁷Ibid., Pp. 512-513.

²⁸Talcott Parsons, "The Point of View of the Author" in Max Black (Ed.), The Social Theories of Talcott Parsons, (Englewood Cliffs, N.J., Prentice-Hall, Inc., 1961), P. 327.

²⁹Seymour Martin Lipset, Political Man, (Garden City, New York, Doubleday & Co. Inc., Anchor Books, 1959), Pp. 27-28.

³⁰James D. Thompson, "Organizational Management of Conflict" in Administrative Science Quarterly, Vol. 4, 1959-60, P. 389.

³¹Theodore M. Newcombe, "The Study of Consensus" in Robert K. Merton, Leonard Broom & Leonard S. Cottrell, Jr., (Ed.), Sociology Today, (New York, Basic Books, Inc., 1959), P. 278, 279-280, 283, 288.

³²Many authors refer to scarcity of resources and/or positions as fundamental aspects of conflict. Whether rightly or wrongly, this author takes the view that scarcity is a matter of social definition. The supply of a resource only becomes scarce when there is a social demand for it in excess of available supply.

³³Seymour Martin Lipset, *Op. Cit.*, P. xxiv.

³⁴For a more detailed outline of the use of the integration perspective in the study of complex organizations, see Nicos P. Mouzelis, *Op. Cit.*, Chapter 5, Pp. 97-119. And also Louis R. Pondy, "Organizational Conflict: Concepts and Models" in Administrative Science Quarterly, Vol. 12, No. 2, 1968, Pp. 306-309. And for a specific example see F.J. Roethlisberger & William J. Dickson, Management and the Worker. (New York, John Wiley & Sons, Inc., 1939).

CHAPTER II

THE PERSPECTIVE APPLIED TO THE STUDY

The study utilizes two theoretical perspectives in combination to achieve, as much as possible, a dynamic framework. In many ways the two perspectives set the method of study. The conflict perspective when combined with a process or career perspective demands a dynamic view of the case under study. Thus, there is no attempt to compare data quantitatively at two or more points in time as in a panel study. Since conflict and change are viewed as part of an ongoing process, the selection of two or more time periods as a basis for comparison would tend to suggest discrete steps rather than a continuous process of organizational development.

Since the study is a descriptive case study and also largely exploratory in nature generalization will be severely restricted. It should, however, point out further areas of study as well as suggest means of study to extend understanding of social relations in complex organizations. The study will, therefore, be used to aid in refining concepts and techniques for future studies and to point to potentially useful ways to carry out additional studies.

1. THE CONFLICT PERSPECTIVE

Five statements stating the conflict perspective are set out hereafter. They are derived from the comprehensive work of Mack and Snyder.¹ In their work, they combined the views of many authors to

deal with pertinent factors of conflict theory. The statements are extrapolated from this work and set out the properties of conflict relations.

Statement No. 1 Conflict takes place within a framework of normal and persistent interaction patterns or, in other words, within some generalized framework of integration or consensus.

Simmel stresses that conflict relations are a part of all social interaction and frequently reinforces consensus and integration. He states:

"If every interaction among men is sociation, conflict -- after all one of the most vivid interactions, --- must certainly be considered as sociation. And in fact, dissociating factors - hate, envy, need, desire -- are the causes of conflict; it breaks out because of them. Conflict is thus designed to resolve divergent dualisms; it is a way of achieving some kind of unity, even if it be through the annihilation of one of the conflicting parties."²

Coser, who uses Simmel's work on conflict as the basis for his own work, points out that conflict performs certain social functions. A partial list of these useful social functions might include: its function in maintaining and developing social groups;³ its function in obtaining acceptance of rules governing the conduct of hostilities;⁴ and its positive function of furthering social integration.⁵

Although a generalized consensual framework will vary in both time and space, there must be some basic agreement on the form of the social organization. Thus in most North Atlantic nations there is general agreement that the market in which each person sells his labor, land or capital is the most effective way to allocate resources. It

is in such a value framework that conflict takes place over who controls the resources or the distribution of rewards.

Statement No. 2 Conflict requires at least two parties, interest groups, units, subunits or entities in opposition to each other.

Karl Marx held that the history of man is about social classes in opposition to each other with respect to the control of production of material goods. His concept of social classes basically divided capitalist society into those groups either owning or not owning the means of production. Conflict was over the ownership of productive process.⁶

Dahrendorf, after carrying out a critical review of Marxian theory, states that opposition or conflict arises over authority relations in imperatively coordinated organizations. Opposition results from the conflict of interests of incumbents over dominance - subordination relationships. He states that such authority relations and hence conflict relationships are fundamental characteristics of all social organizations.⁷

In other words, conflict implies units in opposition to each other. It could readily be extended to role conflict and other types of individual conflict. However, no effort is made here to extend it beyond social organization relationships.

Statement No. 3 Conflict is opposition or struggle over the control of scarce resources and/or positions.

The concept of resource(s) is broadly defined to include all goods, services, etc., material or otherwise required to obtain needed benefits.⁸

These goods and services may be physical objects, socially defined or both. Thus money, a physical object made out of paper, metal, shells, etc., only has value by social definition. The scarcity of a resource is largely a matter of social definition since needed benefits are defined by the goals set by the culture of a society. The "money supply" may be "tight" or "loose" depending on government policy.

The concept of position(s) broadly includes social status and roles. Blau defines position as the social prestige of a person or group in relation to another person or group and it requires, as a minimum, social acceptance and support.⁹ Positions and their scarcity are therefore also defined socially.

The type of basic agreement on social structuring helps to define not only the allocation of resources and positions but also those held to be of value. The stratification system becomes the means for the distribution of social rewards. In the market system of distribution, allocation ideally is based on achievement rather than ascription. Value systems in this perspective are held to be the justification or rationalization for adopting a particular kind of resource or position allocation. They become, in other words, the ideology which legitimizes allocation.¹⁰

The concepts of resources and positions may be defined in another way. Dahrendorf states that all known societies have, at least in rudimentary form, two kinds of inequality. From the theoretical framework of this study it is such inequality which results in conflict. The first type of inequality arises out of the productive process. It is the inequality of power leading to the formation of classes. The second

one arises out of the inequality in the distribution of social rewards. It leads to status or stratification differences.¹¹ The first one deals with the concept of resources and the second with position as they are used in this study.

Statement No. 4 Conflict between parties, groups, etc., is designed to destroy, injure, thwart, or at least gain at the relative expense of the party or parties to the conflict.

Conflict relations involve attempts to acquire or exercise power as well as the actual acquisition or use of power. Coercion, the ultimate form of control, in Dahrendorf's view is a fact in every society.¹² Blau, on the other hand, suggests that the methods of attaining control range all the way from the use of influence, the use of power and to the use of coercion or the threat of its use.¹³

Statement No. 5 Conflict relations may lead to change.

Conflict relations represent temporary tendencies toward disjunction arising out of the mutually incompatible tendencies involved in these relations. These disjunctions are the basis for potential change. Mack and Snyder state: "Conflict relations do not represent a breakdown in regulated conduct but rather a shift in governing norms and expectations."¹⁴ Despite this expressed view, there is no inherent necessity for benign or beneficial change since conflict can lead to total disintegration or destruction. Coser suggests conflict exerts pressure to produce innovation and creativity.¹⁵ Blau, although he is speaking of equilibrium theory, points out one fallacy of such a view. He states, "forces sustaining equilibrium on one level of social life constitute dis-

equilibrating forces on other levels."¹⁶ Innovation and creativity may, in fact, bring beneficial results for some and equally detrimental results for others as in plant automation where generally the consumer gains in reduced prices while the employee is forced to work as an adjunct to the assembly line.

Implicit in the conflict perspective, although it has not been explicitly stated, is a dialectic view of social development. Conflict over the control of resources and/or position will display historical continuity as well as potential emergence in new situations. The result is the possibility of both structural or functional changes in the relationships between groups, units and/or individuals.

2. THE SOCIAL PROCESS PERSPECTIVE

The second major perspective guiding this study is dialectic in nature but seems more appropriately described as the process¹⁷ or career¹⁸ perspective since it seems a more appropriate way to understand short term and comparatively small scale changes. Blau and Scott describe this perspective:

"These facts suggest that the process of organizational development is dialectical - problems appear, and while the process of solving them tends to give rise to new problems, learning has occurred which influences how the new challenges are met."¹⁹

The concepts of process or career imply ongoing activity - a dynamic perspective. Research requires limitation on the scope or domain of the data used and this in turn demands selection. Unfortunately selection tends to impose a static picture of reality. The result suggests a series of discontinuous steps rather than an approximation

of the continuous process of becoming or emergence.²¹ The career or process perspective will assist in achieving a dynamic perspective.

In dealing with societies or complex organizations as complex adaptive systems, Buckley suggests that they are self-adapting as well as self-regulating. Self-adaption, through the process of feedback, gives a dynamic orientation to change.²²

"Process", then, points to the actions and interactions of the components of an ongoing system, in which varying degrees of structuring arise, persist, dissolve, or change.²³

The career approach suggested by Hughes, although he is referring to the work career of an individual, helps to round out this perspective:

'However that may be, a study of careers - of the moving perspective in which persons orient themselves with reference to the social order and of the typical sequences and concatenations of office - may be expected to reveal the nature and "working constitution" of a society.'²⁴

The career or process perspective includes three major conditions. First, it requires a temporal or historical sequence. Second, it demands a dynamic approach. Third, it implies that individuals, through concerted action, attain social ends,²⁵ with individuals shaped in part by the social organization and shaping it in turn.

3. THE PERSPECTIVES COMBINED

The conflict perspective may be summarized as the struggle for the control of resources and/or positions which is either resolved, repressed or avoided. Individuals, either by themselves or through groups, react to the conflict. Change usually occurs, whether it is creative, innovative or destructive, in turn leading to further re-

action or adaption. The basis of conflict continues sometimes open and direct and at other times temporarily out of view while at other times in altered form in the changing situation. It is, in other words, a continuing process. As Polsky states, "It thus provides a fluid research situation consisting of a series of natural events in the life of your subject"²⁶ or "the free-flowing sequence of natural events."²⁷ Even though he is not talking about conflict he is describing the research conception of this study.

The study will attempt to retrace certain recurring and emergent conflicts growing out of the conflict for the control of resources and/or positions in the Province of Saskatchewan. The development of a number of complex organizations, including co-operatives and political parties, were efforts by certain segments of the provincial population to gain control of their own resources and to attain positions of power relative to other individuals and groups.

In discussing a metropolis-hinterland approach as a realistic alternative to the dialectic approach, Davis states:

"Metropolis continuously dominates and exploits hinterland - whether in regional, national, class or ethnic terms. But the forms and terms of domination change as a result of confrontations. Spontaneous and massive social movements in regional hinterlands or urban under-classes may force their way toward an improved status for the colonials within the going system. On the other hand, metropolis-hinterland conflict may be latent for long stretches of time rather than overt."²⁹

To avoid describing credit union development as a discontinuous process rather than the continuous alteration which careful study suggests it is, the conflict-process perspective is seen as similar in nature to metropolis-hinterland conflict. In summary, the domination

of the hinterland results in differential access to resources and positions. This differential access leads to challenge from the hinterland or to conflict. Conflict according to such a perspective is over certain fundamental issues - resources and position. Efforts by the hinterland to gain control of resources and positions may keep the conflict dormant for various periods of time or may alter the form but not the basis of conflict. It is held to be continuously present. This perspective, therefore, precludes a static time bound study design.

4. THE THEORETICAL PERSPECTIVE APPLIED TO THE EMPIRICAL CASE

A brief description will now be given of the method to be used in the study. As this discussion of method is developed, certain principles of data selection will be outlined. These principles will direct the selection of both qualitative and quantitative data.

In order to show the dynamic "flow" conception of the conflict relations relating to the origin and development of credit unions, two major recurring conflict patterns will be traced historically to the present.

The first major conflict issue hinges on the hinterland-metropolis dependence of Western Canada in relation to Eastern Canada (and the world). Historically the Prairie Provinces have been dependent on Eastern Canada for capital, capital goods and to a certain extent for markets. Saskatchewan's long standing dependence on a one crop agricultural economy has led to domination by agents of distant market and supply sources resulting in a continuous struggle for control of resources.

The second issue arises out of the preceding one. The farm people of Saskatchewan, in order to gain more control of needed resources, developed a number of co-operative organizations to make each independent producer more effective. Many of these organizations such as consumer co-operatives and credit unions were adopted by the urban and industrial groups of the province. As these organizations grew in size, they became involved in direct conflict over resources with Eastern Canadian business and commercial interests. In order to be more competitively effective, these organizations moved toward economic rationalism emphasizing central control, planning, highly skilled staff with increasing emphasis on full services. Thus credit unions which began largely as a place to save and borrow now tend to offer full "banking" services such as chequing, money orders, utility bill payer services, etc., with the resulting need for full-time specially skilled staff and specialized equipment. In the process, some local community control was gradually lost to central organizations, changing to some extent the parties to the conflict but not the conflict.

The conflict over positions, on the other hand, was partially a matter of the relative position of Saskatchewan people vis-a-vis Eastern business interests. In addition, however, it was also a matter of positional conflicts between the rural-urban population in Saskatchewan and between local and central credit union and co-operative organizations. Many of these positional conflicts, although part of the historical development of the province, did not become fully obvious until later. At present it is the major visible conflict, although resources conflict is still directly relevant.

The study is divided into three phases. The first phase will utilize secondary historical sources to establish the basis of this continuing conflict. The basis of conflict, it is held, developed nearly fifty years before Saskatchewan became a province.

This phase attempts to show the kinds of solutions the people of Saskatchewan and the Prairie Provinces tried to use to switch the balance of control in their favor and how the process remained continuous. It will take the development process to the late 1930's when credit unions were formed. This phase sets the historical background for the remainder of the study.

The second phase will cover the period from the late 1930's to the mid 1960's. The method will be to use primary sources such as minutes, records, etc., as much as possible to show how the people involved attempted to handle the struggle for control of credit resources. No effort will be made to measure the intensity of conflict, since the conflict is held to be continuous even though manifested in different forms at different times. The repeated emphasis on the process perspective has been an effort to emphasize empirical reality rather than this particular theoretical perspective.

The last phase of the study will cover the past five years of credit union development. The conflict still has the same basis but manifests a new attempt to handle it. As the study will show, the process has not been concluded. The sources in this phase are structured and unstructured interviews as well as written records and the participant observation of the writer. The method will be to select data pertaining to certain development aspects from these sources to clarify the issues of conflict and attempts at solution. Although quantitative data is

used, it is supporting rather than purely descriptive data. Its purpose again is to emphasize the dynamic process of development.

Although the period under consideration has been separated into three phases there is no discontinuity in the actual development process. In fact, the phases suggest temporal epochs which do not exist but which were constructed for the purpose of presenting data.

The five statements outlining the properties of conflict relations as well as the related discussion on the conflict/process perspective were developed as standards of comparison for the case study. The data is descriptive and is presented in relation to the standard or model. The model demonstrates or postulates certain tendencies arising out of conflict relations. It seems necessary to state these tendencies of conflict relations in order to gain a measure of coherence from the diversity of material which is written in the name of conflict theory.

The study, as was implied earlier, is intended to be exploratory. Out of the intended comparison between the data and model, an attempt will be made to clarify and develop theory, concepts and methods. The case study should present the opportunity to carry out some of the intended theoretical, conceptual and methodological refinement. The effectiveness of this effort can only be evaluated in relation to the whole and therefore must come at the end of the study.

FOOTNOTES

¹The fairly comprehensive work of these two authors serves as the basis of abstraction and definition for this study. Raymond W. Mack and Richard C. Snyder, "The Analysis of Social Conflict - Toward an Overview and Synthesis" in Journal of Conflict Resolution, Vol. 1, No. 2, 1957, Pp. 218-219.

²George Simmel, Conflict and the Web of Group Affiliations, (Trans. by Kurt H. Wolff & Reinhard Bendix; New York, The Free Press, 1955), P. 13. SEE ALSO: Pp. 18-19 for his comments on conflict as an integrating force.

³Lewis S. Coser, The Functions of Social Conflict, (New York, The Free Press of Glencoe, 1956), P. 31.

⁴Ibid., P. 123.

⁵Ibid., P. 75.

⁶Karl Marx & Friedrich Engels, "Manifesto of the Communist Party" in Lewis S. Feuer (Ed.), Marx and Engels, (Garden City, N.Y., Doubleday & Co. Inc., 1959), Pp. 7-10.

⁷Ralf Dahrendorf, Class and Class Conflict in Industrial Society, (Stanford, Stanford Univ. Press, 1959), Pp. 168, 172-175.

⁸Peter M. Blau, Exchange and Power in Social Life, (New York, John Wiley & Sons Inc., 1964), Pp. 122-123, 321-322.

⁹Ibid., Pp. 126, 134, 138-139.

¹⁰Ibid., P. 279. SEE ALSO: Ralf Dahrendorf, Society and Democracy in Germany, (Garden City, Doubleday & Co. Inc., Anchor Books, 1967) P. 207.

¹¹Ralf Dahrendorf, Society and Democracy in Germany, Op. Cit., Pp. 78, 79.

¹²Ralf Dahrendorf, Class and Class Conflict in Industrial Society, Op. Cit., P. 162.

¹³Peter M. Blau, Op. Cit., P. 116.

¹⁴Raymond W. Mack and Richard C. Snyder, Op. Cit., P. 219.

¹⁵Lewis A. Coser, "Social Conflict and the Theory of Social Change" in The British Journal of Sociology, Vol. 8, Sept. 1957, P. 197.

¹⁶Peter M. Blau, Op. Cit., P. 26.

¹⁷SEE FOR EXAMPLE: Walter Buckley, "Society as a Complex Adaptive Process" in Walter Buckley (Ed.), Modern Systems Research For the Behavioral Scientist, (Chicago, Aldine Publishing Co., 1968), P. 497.

¹⁸Everett C. Hughes, Men and Their Work, (Glencoe, The Free Press, 1958), P. 67.

¹⁹In a footnote to this comment they say, "If we classify problems into dichotomies or other very broad categories, it inevitably seems as if the same ones recur, simply because all new ones are put into one of the few existing categories." They rather effectively point out the danger of selection or categorization processes. Peter M. Blau and W. Richard Scott, Formal Organizations, (San Francisco, Chandler Pub. Co., 1962), Pp. 250-251.

²⁰See the introductory comments of the editors, Part II, "Society" in Jerome G. Manis & Bernard N. Meltzer, Symbolic Interaction: A Reader in Social Psychology, (Boston, Allyn & Bacon, 1967), P. 137.

²¹James N. McCrorie, in a spring 1970 address at the University of Alberta, Edmonton, Alberta, made this point in discussing his study of the Saskatchewan Farmers Union. Rather than a series of discontinuous historical steps developing out of the selective process of his study, he felt that it should more realistically have approximated a process of continuous becoming or emergence.

²²Walter Buckley in Walter Buckley (Ed.), Op. Cit., P. 490.

²³Ibid., P. 497. AND ALSO: Walter Buckley, Sociology and Modern Systems Theory, (Englewood Cliffs, Prentice-Hall Inc., 1967), Pp. 145-161.

²⁴Everett C. Hughes, Op. Cit., P. 67.

²⁵Co-operation as a means to achieve both individual and group ends is discussed in both: Chester I. Barnard, The Functions of the Executive, (Cambridge, Mass., Harvard Univ. Press, 1968); AND Irving Louis Horowitz, "Consensus, Conflict and Cooperation: A Sociological Inventory" in Social Forces, No. 41, Dec., 1962, Pp. 177-188.

²⁶Ned Polsky, Hustlers, Beats and Others, (Garden City, Doubleday & Co., Anchor Books, 1967), P. 129.

²⁷Ibid., P. 131.

²⁸Arthur K. Davis, "Canadian Society and History as Hinterland vs Metropolis", (to be published in 1971), P. 10.

CHAPTER III

THE HISTORICAL CONTEXT OF SOCIAL CONFLICT IN SASKATCHEWAN

Canadian Confederation in 1867 will be used as the approximate starting date for setting the historical context of the study of conflict relations in Saskatchewan. It predates Saskatchewan's formation as a province by about forty years but is a necessary background for studying the origin and development of credit unions in using the conflict perspective.

The settlement patterns and policy, as well as national policy, led to conflict between the farm population of the Prairies and commerce and industry in Eastern Canada. Agrarian unrest resulting from this conflict and world grain marketing conditions led Saskatchewan people into developing protest political parties, producer and consumer co-operatives and other organizations to handle these conflict relations.

1. THE CANADIAN REACTION TO "MANIFEST DESTINY"

Despite the fears of people in the Maritimes, Quebec and Ontario about the loss of rights and autonomy through union, they were even more concerned about being annexed into what McNaught calls the universal or conforming bureaucracy of the United States.¹ The French of Quebec feared the possibility of being engulfed by the United States more than being lost among the English of Canada and therefore became reluctant partners to the union.² There is little doubt that forceable annexation was seriously considered in the United States, particularly

if the strident voices in that country advocating such annexation are any indication of popular sentiment at about the time of Confederation.³ The defense⁴ basis of Canadian union was, however, only one of the reasons for union.

As early as the 1850's, the produce of agriculture in the St. Lawrence Valley replaced fur and timber as staple products for trade and commerce. Confederation became a means to retain the West as an outlet for Canadian commerce by keeping it from falling to the hands of commerce in the Eastern United States.⁵ The expansion of markets and staple production for Eastern commerce was a deliberate parallel advantage to union. As Fowke states:

'The Canadian Bureau of Agriculture, created in 1852, was charged specifically with the encouragement of immigration from other countries. In the ten years preceding Confederation thirteen committees reported to the Assembly of the Province of Canada on various aspects of immigration and colonization, but only when they mentioned the agricultural possibilities of the West does one sense a glimmer of hope in their deliberations. The groundwork for the eventual fulfilment of these hopes was laid gradually over the decades: by investigation and exploration by the consummation of Confederation, by Canadian acquisition of the western territories, and by placing of western lands in federal custody for the so-called "purposes of the Dominion"; by the construction of a transcontinental, all-Canadian railroad; by the institution of "National Policy" of tariff protection, to canalize the flow of economic benefits from the western plains, up and over the natural barrier north of Lake Superior, and into central Canadian regions; and finally by the establishment of the experimental farm system to hasten the migration northward of American techniques for the agricultural conquest of the prairie. By 1890 all these steps had been taken, and only the long-anticipated results were lacking.'⁶

Ryerson suggests that westward expansion served the interests of two sections of Canadian business - the railroad interests and the

growing commercial and industrial interests.⁷ Although westward settlement did not come with Confederation as anticipated, it was a deliberate policy decision to set up a hinterland for commercial and industrial exploitation by Eastern business and commerce.

2. CANADA EXPANDS WESTWARD

On July 1, 1867, by official proclamation of Queen Victoria, Nova Scotia, New Brunswick, Quebec and Ontario became the Dominion of Canada by means of the British North America Act passed by the British House of Commons four months earlier. In the first session of the new Canadian Parliament the Canadian expansionists set in motion the negotiations to get Ruperts Land from the Hudson's Bay Company.⁸

The transfer to the Crown, which was to take place on November 1, 1869 was not completed until November 19 and was made official in June, 1870. However even before the terms of transfer were worked out, the Dominion Government sent surveyors into the Red River region. They did not even bother to inform or consult with the ten thousand Metis and white settlers of the area. The farm land had been settled according to Quebec patterns with long, narrow frontage on the river, extending back from the river for two or three miles. The surveyors, on the other hand, used the rectangular plan of survey. In addition, the Dominion Government appointed a Lieutenant-Governor and sent him to take control of the territory before it was transferred.⁹

The Metis, under Louis Riel, with the tacit support of at least former Hudson's Bay Company employees and some of the other English settlers, set up a provisional government.¹⁰ On December 1, the

delegates to the convention of the People of Rupert's Land adopted a bill of rights. In Howard's assessment, it was a document proposing alliance not submission. The bill of rights made conflicts over relative position explicit, including equal French-English language rights as well as acceptance of usages and customs in existence before the transfer of sovereignty. It also made the conflict over resources explicit by demanding full and fair representation in Canada's parliament, respect for privileges already in effect, the right to elect a local legislature to override the executive and a free homestead law.¹¹

After a further series of arrogant, ignorant blunders, the provisional government was recognized. Their bill of rights was generally adopted in the Manitoba Act. It set up a small province of Manitoba and the remainder of Rupert's Land as a Territory to be administered by the Lieutenant-Governor of Manitoba.¹²

3. NATIONAL DEVELOPMENT POLICY

The Dominion Government seemed to have learned little from the events occurring in Manitoba in 1869-70 for similar problems resulted in rebellion in Saskatchewan in 1885. It happened despite the constant flow of protests, resolutions and warnings from those living in the West.¹³ The Territorial Council, as early as 1878 began sending resolutions to Ottawa urging a settlement of Metis land problems. They suggested a settlement similar to that in Manitoba in 1870 by the use of script, the non-transferable location tickets, valid on any unoccupied Dominion lands as well as assistance in obtaining machinery

and seed.¹⁴ They also made strenuous representation to set up a school system without getting a response from Ottawa. Nor did they get any results from their request that starving Indians be helped when the buffalo herds disappeared.¹⁵ In addition, costs for goods and service were prohibitively high because of inadequate transportation. Black gives one glaring example of the mismanagement and neglect in describing the telegraph line extending 700 miles west from Winnipeg. It ended in the middle of nowhere, 18 miles from Edmonton and 17 miles beyond the last station.¹⁶

None of these factors helped to ease the conflict of interests between the regions of Canada.¹⁷ Two major developments on a national scale became the symbols as well as the basis for continuing east-west conflict. The first was the National Policy enacted in 1879 and the second was the Canadian Pacific (transcontinental) Railway.¹⁸ The purpose of the National Policy was to build a wall of protective tariffs around the growing commercial and industrial interests of Ontario and Quebec. Sir John A. MacDonald, in defending the tariff said, 'the bigger the capitalist and the more he has invested in the country the better for the country.'¹⁹ But for the small, primary producer such as the farmer, fisherman, etc., it increased his costs of purchasing equipment and consumer goods.

The railway was finished in 1886, partly to fulfill a promise to British Columbia when it joined Confederation in 1870 and partly as a means to open the Western hinterland for settlement.²⁰ The settlers were viewed as a market for Eastern manufactured goods as well as producers of staple goods to be sold through Eastern business concerns.

In addition, the building of the railroad was viewed by the owners of existing railways as a solution to their financial difficulties.²¹

The corporation responsible for its construction was given out right grants of land along its right of way eventually to include 22.5 million acres, 25 million dollars in cash grants, taxation concessions, 710 miles of track already constructed, a monopoly position for twenty years and no freight rate regulation until it had earned a 10% profit on invested capital.²²

A third factor was related to National Policy and the transcontinental railway system of nation building. The effectiveness of either of the development factors depended on the settlement of the West. As Mackintosh says:

"This decision for industrialization by means of the protective tariff was definitely related to the settlement policy; it was to be a means by which the new market, which it was hoped would open up in the west, would be available to the other regions. The decision was definitely related also to the transportation policy, for Canadian industrialization promoted the east-west traffic which was important for transcontinental railways."²³

The two development policies were, in other words, dependent on the formation of the appropriate hinterland.

4. SETTLEMENT OF THE WEST

Despite the efforts to induce settlement, it was slow to develop. The Bureau of Agriculture, in fact, was essentially the first immigration agency.²⁴ Agencies in Europe were used to stimulate immigration to Canada by a variety of means including the distribution to potential settlers of descriptive pamphlets in English, French, German, and Flemish.²⁵ The emphasis was on free or cheap land, passenger agent

commissions to stimulate ticket sales and low cost fares.²⁶ However these efforts were not generally successful due to heavy competition from the United States, Australia, New Zealand and to a lesser extent Argentina.

It was not until the turn of the century that settlers began moving into the Prairie Provinces. The population of the Prairie Provinces in 1901 was estimated to be 419,512 and it had increased by more than five fold to 2,353,529 in 1931. Saskatchewan's population increased more than tenfold in the same period from 91,279 in 1901 to 921,785 in 1931. This comparatively rapid population growth coincided with the equally fast growth in wheat production. The "wheat phase" of economic development has largely been restricted in its application to Saskatchewan.²⁷

TABLE 3.1

POPULATION GROWTH IN SASKATCHEWAN AND THE PRAIRIE PROVINCES
1901-1966

| Census Year | Saskatchewan | % Decrease or % Increase | Prairie Provinces | % Increase |
|-------------|--------------|--------------------------|-------------------|------------|
| 1901 | 91,279 | | 419,512 | |
| 1911 | 492,432 | +439.5 | 1,338,121 | 218.9 |
| 1921 | 757,510 | + 53.8 | 1,956,082 | 46.2 |
| 1931 | 921,785 | + 21.7 | 2,353,529 | 20.3 |
| 1941 | 895,992 | - 2.8 | 2,421,905 | 3.2 |
| 1951 | 831,728 | - 7.2 | 2,547,320 | 5.2 |
| 1961 | 925,181 | + 11.2 | 3,178,811 | 2.5 |
| 1966 | 955,344 | + 3.3 | 3,381,613 | 6.3 |

SOURCES: Dominion Bureau of Statistics, Census of Canada 1966, (Ottawa, Queens Printer, 1969); AND M.C. Urquhart and K.A.H. Buckley, Historical Statistics of Canada, (Toronto, The MacMillan Co. of Canada Ltd., 1965).

Saskatchewan's dependence on agriculture is particularly significant since the basic east-west hinterland-metropolis conflict in Saskatchewan is largely based on the production of one crop - wheat. As can be seen from the preceding table, the decline in population began around 1930 coinciding with the world wide depression, the resulting decline in wheat prices and severe drought in the Prairies.²⁸ Other factors bear out this dependence. Thus wheat production rose from 23.5 million bushels in 1900 to 397.3 million bushels in 1930 in the Prairie Provinces. This is also the period in which Saskatchewan's population grew most rapidly.²⁹

TABLE 3.2

GROSS VALUE OF COMMODITY PRODUCTION IN SASKATCHEWAN

1959-1968**

| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|
| Agriculture % of total | 36.9 | 40.4 | 29.7 | 42.9 | 45.5 | 38.3 | 40.4 | 41.6 | 35.9 | 36.6 |
| Non-agriculture* % of total | 63.1 | 59.6 | 70.3 | 57.1 | 54.5 | 61.7 | 59.6 | 58.4 | 64.1 | 63.4 |
| Total in millions of dollars*** | 1455 | 1571 | 1351 | 1836 | 2070 | 1941 | 2288 | 2609 | 2468 | 2495 |

SOURCE: Saskatchewan Economic Development Board, 1969, Saskatchewan Economic Review, (No. 23, Regina, Treasury Department).

* Non-agriculture includes the following economic sectors: mining, electric power, manufacturing, construction and other natural resources.

** Figures not yet available for 1969.

*** The non-agriculture sector has grown consistently - fluctuations are due to the agricultural sector.

With the exception of 1961 which was a poor year for wheat production in Saskatchewan, agricultural production still makes up roughly 40 per cent of gross commodity production each year despite the recent development of the petroleum, potash and pulp and paper industries.

Despite increasing tends to urbanization in the Prairie Provinces, they still have a greater proportion of their population on the farm than does the rest of Canada. Saskatchewan shows the greatest proportional concentration of farm population.

TABLE 3.3

PROPORTION OF FARM POPULATION IN PRAIRIE PROVINCES AND CANADA

1931-1966*

| Census Year | Manitoba | Saskatchewan | Alberta | Canada |
|-------------|-------------------|-------------------|-------------------|---------------------|
| 1931 | 256,305 (36.6) | 564,012 (61.2) | 375,097 (51.3) | 3,289,140 (31.7) |
| 1941 | 249,599 (34.2) | 514,677 (57.4) | 383,964 (48.2) | 3,152,449 (27.4) |
| 1951 | 219,233 (28.2) | 399,473 (48.0) | 345,222 (36.7) | 2,911,996 (20.8) |
| 1961 | 172,946 (18.8) | 305,740 (33.0) | 287,814 (21.6) | 2,128,400 (11.7) |
| 1966 | 161,662 (16.8) | 281,089 (29.4) | 281,583 (19.2) | 1,960,365 (9.8) |

SOURCE: Dominion Bureau of Statistics, Census of Canada 1966 Agriculture, (Ottawa, Queens Printer, 1969).

* Figures in brackets are per cent proportions of farm population in relation to total population.

Despite the fairly rapid reduction of farm population as a proportion of total population in Saskatchewan, it still accounts for more than one quarter of the total population in 1966. Saskatchewan's comparatively heavy dependence on agriculture and particularly wheat production had a special significance for the developing conflict relations.

Since the production of agriculture staples required little processing other than handling, few secondary industries developed to handle it. Without a manufacturing or industrial base, there was little local development to supply the production equipment needed in farming. The National Policy tariffs kept the prices of highly competitive foreign manufactured production equipment high enough so that the eastern prices were lower. However in protecting eastern industry it increased the costs of operating a farm. Capital for the purchase of farms, equipment, etc., was funneled through eastern banks and mortgage companies. A comparative shortage of development capital kept interest rates fairly high. Finally, agricultural production, particularly wheat, had to be sold in the highly variable international markets. Prices varied and transportation was a constant problem.

5. THE ORIGIN OF CONFLICT

Very early in the development of wheat farming, two problems became obvious to the producers. Both the marketing and transport of wheat were difficulties to be overcome if Saskatchewan farmers were to produce for other than local consumption. Marketing problems involved

both the variability of world wide supply and demand as well as the expense of storage and handling. Because of its bulk, wheat requires large scale, low cost transportation.

Before the advent of the transcontinental railway, wheat had been produced for export in the St. Lawrence River valley. The comparatively low cost water transport of the St. Lawrence Canal System completed in 1848, along with the export demand for grain and the development of commercial farming practices brought increasing prosperity to the area.³⁰ Before the development of this system of canals, the basic problem of the marketing and transporting of grain came into clear focus. The price for this staple commodity was highly variable based on what the importer was paying at any given time. The price to the producer was the selling price less marketing and shipping costs. Due to its comparatively low value in relation to its bulk, transportation costs were of considerable significance in setting the producers' price. Low cost transport was essential. The canal system had, at least, resolved this problem for the farmers of the St. Lawrence River Valley.

The same problem also faced the people of the Red River settlement after 1822. The settlers supplied the local food needs of the Hudson's Bay Company but needed additional income for their own support. Despite the strenuous efforts of the Hudson's Bay Company, many of the settlers carried on a trade in furs into the United States. Many efforts were made between 1822 and 1849 to develop a staple commodity trade to reduce this unwanted trade in furs. Although local wheat and flour production increased substantially to meet the needs of the Company, it was too bulky and low in value per volume to make it a desirable trading

good. Large scale wheat production was not possible without cheap transportation and an early ripening wheat.³¹

Agricultural settlement and particularly the wheat economy became possible with the advent of the transcontinental railway. The resulting rapid growth of population stimulated the railway to build branch lines.³² The railways thereby achieved two purposes; one to dispose of the land they had been granted during the construction phase and second, traffic for their railway lines.³³

One major factor accounts for the limited settlement in the treeless plains until the turn of the century. It was the problem of adapting farming methods to the low moisture, dry land area of the Great Plains. As Webb points out, this was the one cause of the long delay in settling the Great Plains area in the United States.³⁴ The solutions which became comparatively effective by 1900 were a combination of practices developed in the United States as well as the innovations carried out by "experimental farms" in Canada. Two of the experimental farm innovations were the development of early maturing Marquis wheat and popularizing the more important practice of summer fallowing as a means of preserving moisture.³⁵

Settlement in Saskatchewan was extremely rapid between 1900 and 1914, continuing at a slower rate until 1930. The problems and conflicts over the control of resources were developing even before the major thrust of settlement following 1900. The flow of grain along the newly completed railroad was hampered as early as 1887 by a lack of railway cars and storage facilities at the shipping points. The limited available storage was mainly the flat warehouse where the individual stored his

bagged grain until he had a car load lot. The car load was then sent to Winnipeg or Port Arthur where it was graded and weighed by federal government inspectors to be sold through commission agents on the Grain Exchange at Winnipeg. The problem of storage and transport was complicated by the fact that there was little farm storage and limited shipping point storage. Thus as much grain as possible had to be shipped to the lakehead each year before the shipping season closed.³⁶

The railway, in order to solve storage and transport problems, stimulated the development of standard 25,000 bushels elevators by granting free leases of land and monopoly access to railway cars. By 1899 there were about 450 of these elevators, most of them owned by three elevator syndicates and two large milling companies.³⁷ The elevators were of immense value in improving storage and transport but it limited the farmer's ability to ship car load lots direct to Winnipeg. Bulk storage eliminated individual grain storage. The farmer had a choice of storing it under the elevator companies' conditions or selling it at a local buyer's terms. They soon began to complain about low grades, excessive dockage and even inaccurate weighing of loads.³⁸

Fowke suggests that this was still the time when farmers had some political power for they were still important to the purpose of the Dominion.³⁹ The struggle for change was therefore both political and social. The farmers' case was taken to the federal parliament and given a favorable hearing. A Royal Commission was set up. It recommended ways of meeting the farmers' legitimate requests. The pressure on the C.P.R. resulted in their once again allowing car load shipments. The next year these recommendations were made law. The railway continued to meet the legal requirements of the law but

not its intent. The following year (1901) produced a record wheat crop. There was a car shortage for all; but the farmers complained that the elevator companies got priority. At a meeting called in Indian Head, Saskatchewan, the Territorial Grain Growers' Association was formed.⁴⁰

Following another record wheat crop in 1902 the new organization contacted the C.P.R. to arrange for its agents to meet the intent of the law. When they didn't, the association laid a charge against a railway agent at Sintaluta under the car distribution section of the law. They won the case and it was upheld in an appeal to the Supreme Court of Canada. As a result, the C.P.R. agreed to supply cars according to the order of application in the order book. The farmers won this struggle in 1903.⁴¹

The success of the T.G.G.A. in uniting to counter the centralized control of the grain handling interests impressed on farmers the value of united effort.⁴² After their first success, the T.G.G.A. tackled the problem of marketing grain. Among their complaints were the grading of grain, suspected manipulation of prices by the Northwest Grain Dealer's Association and the speculation inherent in the Grain Exchange.⁴³ The farmers felt that they were not receiving true grades on their grain and that grades were mixed at terminal points to get better prices for the dealers. Baking tests of the various grades of wheat, in fact, showed little justification for the price differential between grades.⁴⁴ The matter of grading is still an issue in 1970 for farmers claim loss of Canadian wheat markets are partly a result of relying on an obsolete weight grading system rather than on protein-content grading system.⁴⁵

The T.G.G.A. decided to form their own co-operatively organized commission grain sales company. Despite various difficulties, the Grain Growers' Company was in operation by September, 1906. Within six weeks of obtaining a seat on the Grain Exchange, they lost it ostensibly because they proposed to divide profits among members on the basis of their patronage with the company. They were re-admitted in April, 1907 following pressure resulting from court action, another Royal Commission and legislative action from the Manitoba government as well as the pressure of public opinion.⁴⁶ The company grew, despite continuous harassing tactics by the Grain Exchange and grain dealers. They began marketing direct to exporters and eastern markets in 1908.⁴⁷

There are a number of other aspects of this struggle for control of resources. Farm associations in the three Prairie Provinces in 1908 pressed provincial and the federal government to establish interior storage facilities to overcome the abuses of the line elevator companies. They were successful with the government in Manitoba but when this effort lost money, the provincial government blamed the grain growers.⁴⁸ The Grain Growers' Company took over the elevators. However, the independent farmers began using facilities offering them the best relative advantage. Their early loyalty, arising out of their anger with line companies, evaporated. As a result of the small volume, the Grain Grower's Company lost money in their first year in the business of grain storage.⁴⁹

A commission appointed in Saskatchewan to explore the same storage and marketing problems concluded that line elevator and milling companies had a dominating position in relation to grain producers as well as an overwhelming advantage over other grain dealers by virtue

of their initial, as well as terminal storage facilities. Their position amounted to potential, if not actual monopoly.⁵⁰ The commission recommended a farmer owned company, locally controlled but with centralized management. The Saskatchewan Co-operative Elevator Act was passed in 1911 and a farmer owned company began operation in the same year. It did so well that the farmers were now sure the line elevators companies had been making excessive profits. Its success attracted other farmers. By the end of its second year of operation the company had built 192 new elevators through its own construction division.⁵¹

The non-farm control of terminal storage facilities raised other problems. The farmers felt that the line elevator and milling companies, by mixing lower grades into higher grade wheat and by deliberately poor cleaning practices were increasing the value of the grain thus making illegal profits. A government inspection, in fact found that there was substantial variation between the stated and actual quantities of various grades of wheat in terminal storage facilities. Two companies were charged and convicted of illegally mixing grades of wheat. To overcome this problem, the Grain Growers' Association and the Saskatchewan Co-operative Elevator Company acquired their own terminal storage facilities. Farm pressure resulted in tighter regulation and inspection of other terminals as well as in the formation of the Board of Grain Commissioners who also built a terminal.⁵²

The farmers had gained some control of resources in transportation and storage of their grain but marketing was still a problem. During the crop year 1919-20, farmers were required to pool their grain for sale by

the Canadian Wheat Board. The collective marketing experience seemed to be successful, particularly when a return to open market conditions coincided with a collapse in wheat prices from \$2.78 in September, 1920 to \$1.76 per bushel in April, 1921, apparently due to speculative trading. The farmers began pressing first for compulsory and then voluntary pooling procedures. The purpose of pooling was to produce an orderly marketing process in which grain could be sold year round rather than in an annual fall rush which caused an increase in supply and a fall in prices.⁵³

The farmer owned elevator companies did not alleviate this problem since they had no real part in the marketing of wheat. After a drastic fall in prices coinciding with a record wheat crop in 1923, the Saskatchewan Wheat Pool was formed in 1924. In 1926, despite considerable resistance, it acquired the Saskatchewan Co-operative Elevator Company and became the major buyer of Saskatchewan wheat.⁵⁴

This fairly lengthy and detailed account of the efforts of farmers to obtain control of transportation, storage and marketing resources illustrates the continuing conflict between Saskatchewan farmers and the large privately owned milling, railways and line elevator companies mostly from the east. The first struggle was with the railway monopoly of the C.P.R. which was partially overcome by the construction of a second railway line. The next struggle was over the monopoly control and apparent price manipulation of the privately owned line elevator companies. Political, legal, as well as other action, such as building their own shipping point storage partially solved this conflict only to make the conflict over terminal storage

more obvious. These struggles were partially resolved by purchasing their own terminal facilities. However in order to remain competitive, their own companies began to practice grade mixing, poor cleaning and price speculation. Voluntary pooling, leading to "orderly marketing", was suggested as a solution to these marketing problems. The whole series of solutions arose out of the conflict over the control of resources with each solution bringing another form of resource conflict into the forefront.

This was only one side of the continuing conflict for another facet of the struggle was more directly related to the production of grain. Protection, whether through tariffs or subsidies, is related to the immediate concerns of producers in a given situation. As Fowke points out, neither the farmers or commercial interests in Canada have ever been continuously or consistently for or against protective tariffs. However they have consistently been on the opposite side of each tariff issue.⁵⁵ Western grain growers who were beyond doubt dependent on exports to foreign markets cared little for the home market argument. Fowke states the case clearly:

"Merchants and transportation interests on the other hand, as pointed out on preceding pages, have frequently been Canada's great free traders. Not so, however, in regard to the trade with western Canada. So far as concerned the commerce with the growing western agricultural community, it was felt that free trade could only mean supply by American merchants, transport by American railroads. Particularly because of the western prospect, Canadian manufacturers, merchants and the major transportation group of the country, along with the sustaining and interdependent banking houses in Montreal and Toronto were united in support of the National Policy of tariff protection."⁵⁶

In the federal election of 1911, the Liberal Party, only partly convinced of the farmers' strength, nevertheless supported reciprocity. The Liberals, who had a majority prior to the election lost to the Conservatives who were against reciprocity. Saskatchewan, however, returned only one Conservative.⁵⁷ The election of 65 members of the Progressive Party, also known as the Farmers' Party, to the Dominion Parliament in 1921 was mainly a result of the effort to re-instate the Canadian Wheat Board (compulsory pooling). But the removal of the tariff was a strong second issue for it would reduce costs, particularly in an era of rising consumer prices and falling wheat prices.⁵⁸ Tariff reductions were made on farm machinery in 1924 and on cheaper makes of cars in 1926, but were moved upward again by the Conservative government in and following 1930. It is Fowke's contention that the peak of farm strength was reached either in 1911 or 1921 and after 1930 it lost much of its power since agriculture had fulfilled its purpose in the national policy of building a nation by settling the west, developing a market for eastern industry and commerce and fulfilling the demands of the defence policy.⁵⁹

6. OTHER METHODS OF HANDLING CONFLICT

Farmers in Saskatchewan, in order to reduce their costs, used pooled purchase procedures. A group of farmers, in order to reduce costs by cutting out the middleman, would order a car load lot of produce like flour, binder twine, apples, coal, barbed wire or posts direct from the supplier. These practices, however, were viewed with considerable disfavor by local merchants and dealers.⁶⁰

In 1913 the Agricultural Co-operative Associations Act was passed in Saskatchewan and the first formal consumer co-operative was incorporated in 1914. Experiments in formal, permanent pooled purchasing had been tried earlier to offset what the farmers considered to be the autocratic attitude of merchants and dealers.⁶¹ Pressure from retail dealers and merchants closed off many wholesale outlets to these formal and informal purchasing pools. To overcome this, the Saskatchewan Grain Growers' Association set up a wholesale trading department in 1914 to supply the needs of the local co-operatives. It never was very successful. The Saskatchewan Co-operative Wholesale Society Limited was incorporated in 1928 and took over this trading department,⁶² continuing successfully under a different name to the present. Many of the consumer co-operatives sold gas and oil to their members but these activities were viewed with outright distaste by merchants and dealers. In many cases they had difficulty getting supplies and as a result in 1935 set up their own refinery in Regina⁶³ which is still in operation supplying petroleum products to co-operative associations.

Another major effort to gain control of resources in contrast to the economic effort of the various co-operatives was direct political action. The electoral success of the Progressive or Farmers' Party in the Prairie Provinces in the 1921 federal election has already been stressed. They won every seat except Regina with 62.6 per cent of the total provincial vote.⁶⁴ In 1930, as a result of world depression, the basis was set for the eventual emergence of the socialist C.C.F. party. Their platform raised the issue of a planned economy versus an open market economy into the wider conflict over the control of resources and/or

positions.⁶⁵ As Lipset points out, conflict or the significant political cleavage, as he calls it was: "that between the farm world and the world of the towns and cities linked to urban eastern business."⁶⁶

The varying responses or reactions to the continuing conflict over resources and positions led farmers in Saskatchewan to develop a variety of social organizations each with the avowed purpose of gaining control of resources essential to the welfare of the farmers. The farmers also were not adverse to using political pressure and political parties in their struggle for control.

7. THE HISTORICAL CONTEXT OF CONFLICT

The conflict over the control of resources between the Prairie farmer and eastern business concerns is set within the policy of nation building. The settlement of the west served two purposes. First, it was a defence against annexation of the west into the United States and second, it served as a market for growing production in the east. Tariff policies protected eastern businesses from their highly competitive counterparts on the eastern seaboard of the United States resulting in higher prices for goods and services in the west. The transcontinental railway served as a means to link the nation as well as a means of transport for settlers, eastern products and western commodities to their respective markets.

In Saskatchewan, agriculture was and continues to be the major industry producing mainly wheat. The yield and price of wheat fluctuated constantly resulting in a constant state of uncertainty for the farmer. The transport, storage and marketing of wheat seemed just as uncertain

and beyond the farmers' control. Through such means as political pressure and the formation of co-operatively owned storage and marketing facilities, farmers attempted to gain control of some of these factors. The struggle was not a smooth or gradual process but seemed to take the form of a series of development surges arising out of the struggle for the control of resources. The result of one of these surges was the development of co-operatively owned consumer outlets to gain some control of the prices on needed goods and services. By 1930 they had formed at least partial solutions to most of these problems.

About this time prolonged drought along with an international depression brought a new problem into prominence. Farm credit had always been scarce, but with the drastic decline of farm income following the drought and depression, this resource became almost non-existent. The farmers' experience in solving their problems of resource control through organized co-operative activity directed their search for alternative sources of credit to another form of co-operative - the credit union. Within the historical context of the study as set in this chapter, the conflict over position and/or resources will now be directed to the subject of this case study which is the development of credit unions.

FOOTNOTES

¹Kenneth McNaught, The Pelican History of Canada, (Middlesex, Penguin Books Ltd., 1969), Pp. 126-133.

²Ibid., P. 127. AND Stanley B. Ryerson, Unequal Union, (Toronto, Progress Books, 1968), Pp. 366-367.

³Stanley B. Ryerson, Op. Cit., Pp. 338-341.

⁴This expression is used by Vernon C. Fowke, Canadian Agricultural Policy: The Historical Pattern, (Toronto, The Univ. of Toronto Press, 1946), Pp. 6, 105.

⁵Ibid., Pp. 7-8.

⁶Ibid., P. 8.

⁷Stanley B. Ryerson, Op. Cit., Pp. 343-347.

⁸Norman Fergus Black, History of Saskatchewan, (Vol. 1, Regina, Saskatchewan Historical Co., 1913), P. 141.

⁹Ibid., Pp. 141, 144-145.

¹⁰Joseph Kinsey Howard, Strange Empire, (Toronto, Swan Publishing Co. Ltd., 1952), Pp. 107-114.

¹¹Ibid., Pp. 116-117. The twelve articles are printed in full in this source.

¹²Ibid., Pp. 169-171.

¹³Norman Fergus Black, Op. Cit., Pp. 174, 180 AND Kenneth McNaught, Op. Cit., Pp. 176-179.

¹⁴Norman Fergus Black, Op. Cit., P. 197.

¹⁵Ibid., Pp. 198-200.

¹⁶Ibid., P. 203.

¹⁷W.A. Mackintosh, The Economic Background of Dominion-Provincial Relations, (Toronto, McClelland and Stewart Ltd., 1954), Pp. 4, 35.

¹⁸W.T. Easterbrook and Hugh G.T. Aitken, Canadian Economic History, (Toronto, MacMillan Co. of Canada Ltd., 1956), Pp. 391, 392, 430-432.

¹⁹Kenneth McNaught, Op. Cit., P. 166.

²⁰W.T. Easterbrook and Hugh G.J. Aitken, Op. Cit., P. 409, AND W.A. MacKintosh, Op. Cit., P. 24.

²¹W.T. Easterbrook and Hugh G.J. Aitken, Op. Cit., P. 312, 345.

²²Ibid., Pp. 428-429.

²³W.A. Mackintosh, Op. Cit., P. 33.

²⁴Vernon C. Fowke, Op. Cit., P. 122.

²⁵Ibid., Pp. 165-166.

²⁶Ibid., Pp. 167-169.

²⁷W.T. Easterbrook and Hugh G.J. Aitken, Op. Cit., P. 481.

²⁸G.E. Britnell and V.C. Fowke, Canadian Agriculture in War and Peace 1935-50, (Stanford, Stanford Univ. Press, 1962), P. 63.

²⁹Ibid., Pp. 444-447, Table III and Table IV.

³⁰W.T. Easterbrook and Hugh G.J. Aitken, Op. Cit., Pp. 270, 279-283.

³¹Ibid., Pp. 339-343.

³²G.E. Britnell, The Wheat Economy, (Toronto, Univ. of Toronto Press, 1939), P. 13.

³³Ibid., Pp. 34-35.

³⁴Walter Prescott Webb, The Great Plains, (New York, Grosset & Dunlap, 1931), P. 152 & Chap. 7 & 8 - Pp. 270-384.

³⁵Vernon C. Fowke, Op. Cit., Pp. 220, 232, 233, 237. AND G.E. Britnell, Op. Cit., Pp. 35, 59.

³⁶Harald S. Patton, Grain Grower's Cooperation in Western Canada, (Cambridge, Harvard Univ. Press, 1928), Pp. 12-17.

³⁷Ibid., P. 14.

³⁸Ibid., Pp. 15-16.

³⁹Vernon C. Fowke, Op. Cit., Pp. 244-245.

⁴⁰Harald S. Patton, Op. Cit., Pp. 20-34.

⁴¹Ibid., Pp. 35-36, 39. AND S.W. Yates, The Saskatchewan Wheat Pool, (Saskatoon, United Farmers of Canada, Sask. Section Ltd., 1940), P. 13.

⁴²Harald S. Patton, Op. Cit., P. 41.

⁴³Ibid., P. 41.

⁴⁴Ibid., P. 42.

⁴⁵In conversations with Saskatchewan Wheat Pool members and officials.

⁴⁶Harald S. Patton, Op. Cit., Pp. 44-61.

⁴⁷Ibid., Pp. 67-68.

⁴⁸Ibid., Pp. 82, 83, 89.

⁴⁹Ibid., Pp. 93-95.

⁵⁰Ibid., P. 99.

⁵¹Ibid., Pp. 102-111.

⁵²Ibid., Pp. 140-148, 178-182.

⁵³Ibid., P. 194.

⁵⁴Ibid., Pp. 195, 210, 219, 222-223, 235.

⁵⁵Vernon C. Fowke, Op. Cit., P. 252.

⁵⁶Ibid., P. 261.

⁵⁷Ibid., P. 267.

⁵⁸Ibid., P. 269. AND Jim F.C. Wright, Prairie Progress (Saskatoon, Modern Press, 1956), P. 20. AND ALSO Paul F. Sharp, The Agrarian Revolt in Western Canada (Minneapolis, Univ. of Minnesota Press, 1948), Pp. 132-141, 149.

⁵⁹Vernon C. Fowke, Op. Cit., Pp. 266-269.

⁶⁰Jim F.C. Wright, Op. Cit., Pp. 37, 38.

⁶¹Ibid., P. 39.

⁶²Ibid., Pp. 60, 66.

⁶³Ibid., Pp. 123, 126.

⁶⁴S.M. Lipset, Agrarian Socialism (Garden City, Doubleday & Co. Inc., Anchor Books, 1968), P. 79.

⁶⁵Ibid., Pp. 105, 106.

⁶⁶Ibid., P. 47.

CHAPTER IV

THE DEVELOPMENT BACKGROUND OF SASKATCHEWAN CREDIT UNIONS

Two events, one related to the physical environment of the Prairies and the second an international economic situation occurred almost simultaneously in the decade beginning in 1930 and each affected the development of the Prairie economy. The world wide economic depression beginning in 1929 drove wheat prices down drastically. In the wheat economy of Saskatchewan this fact was of extreme significance. Coupled with this was the heavy drought which began about the same time. The resulting reduced wheat yield intensified the problems of depression.

From the very beginning of Prairie settlement and development, there had been a consistent shortage of development capital. The depression and recession combined to almost close out the already short supply of credit. Conditions became so difficult that loans of even the smallest denomination were the difference between the end or survival of a family farm. In these situations, the credit unions of Saskatchewan developed.

1. THE ROLE OF DEVELOPMENT CAPITAL

The banking system in Canada developed in a way unique to North America. Rather than the unit bank development common to the United States, Canadian banking developed as a branch banking system. Each bank developed many branches under the centralized control of an eastern head office. Although the strength of this system was born out

in the Great Depression relative to the United States banking system, it tended to be comparatively aloof and insensitive to local needs. By tradition, the banks, for purposes of liquidity, tended to deal in commercial paper rather than in agricultural lending. They did however, play an important part in the sale of crops. The banks also were a source of indirect farm credit since they held the commercial paper of implement dealers, jobbers, etc., who supplied the direct operating credit for the farmer. Banks usually only made small short-term loans to farmers.¹

When the surge of settlement in the Prairies began around the turn of the century, a persistent shortage of development capital for the purchase of land and equipment and construction of buildings quickly became apparent. Part of this shortage was met by the influx of British and other foreign capital channeled through the mortgage loan and trust companies of Eastern Canada.² The operating and consumption credit needs of the farmer with his once-a-year pay day was financed by merchants who in turn were backed by wholesalers and jobbers in the East. As it was pointed out in the preceding paragraph, the banks supplied the credit to this latter group in the credit chain.³ As Easterbrooke points out:

"From the standpoint of the financing of Canada's agriculture, the most important factors in Canadian economic history have been the subservience of agriculture to other industries...."⁴

One early, continuing and fairly substantial source of agricultural capital were government grants and loans. Before Saskatchewan and Alberta became provinces, this support came solely from the federal government. In Saskatchewan after 1906 the provincial government

took on many of these responsibilities although the federal government was never excluded. Provincial assistance included capital to assist agricultural diversification, veteran resettlement and other farm loans.⁵ Federal assistance took the form of loans, grants, guarantee of loans as well as debt adjustment. Their efforts in product development, storage, transportation and education continue to be fairly substantial. There was also the matter of emergency assistance and relief in seed, fodder and provisions.⁶

Government participation in farm financing however, makes up only a small part of the total financing requirements in agriculture in Saskatchewan. The basic sources of farm credit in Canada were private, either individual or corporate. Related to this is the fact that in Canada there are no specific institutions designed to meet the needs of agriculture.⁷

2. DROUGHT AND DEPRESSION

Reference was made earlier to Saskatchewan's dependence on factors, events and situations beyond the control of its people. It would not be difficult to write an economic history of the Province based on a theme of dependence. Two major crises occurred nearly simultaneously in 1929 and brought this dependence into sharp relief. Nearly a decade of drought was one crisis internal to the province and the Great Depression almost of the same duration was external, but both seriously affected Saskatchewan's economy.

The stock market crash of 1929 was followed by the depression which drastically reduced the markets for Saskatchewan wheat. The depression

itself had only been one of the factors leading to a decline in world wide markets and prices. A surplus of wheat among the world's grain producing nations had developed a year earlier with the fall in prices brought about in part by this surplus and in part by the depression, the world's wheat producing countries took protective action to hold as well as expand their markets. The result was a reduction in the demand for Saskatchewan wheat.

The price of wheat which had been in one of its periodic declines after 1925 dropped after 1929 to the lowest level in 300 years of commercial dealing. In December, 1932 the price was 35 cents a bushel.⁸ At the same time the prices on goods, services, etc., used by farmers remained high. Mackintosh points out that while the purchasing power of wheat declined by two thirds to an index level of 34 in 1932 from 100 in 1914, the index of commodities and equipment for household and farm purposes went up by 32 per cent to 132.⁹

TABLE 4.1
AVERAGE FARM WHEAT PRICE IN DOLLARS PER BUSHEL
1920-1945

| YEAR | PRICE* | YEAR | PRICE* |
|------|--------|------|--------|
| 1920 | 1.55 | 1933 | .47 |
| 1921 | .76 | 1934 | .61 |
| 1922 | .85 | 1935 | .60 |
| 1923 | .65 | 1936 | .92 |
| 1924 | 1.21 | 1937 | 1.05 |
| 1925 | 1.25 | 1938 | .58 |
| 1926 | 1.08 | 1939 | .54 |
| 1927 | .97 | 1940 | .58 |
| 1928 | .77 | 1941 | .59 |
| 1929 | 1.03 | 1942 | .77 |
| 1930 | .47 | 1943 | 1.14 |
| 1931 | .38 | 1944 | 1.25 |
| 1932 | .35 | 1945 | 1.64 |

SOURCE: G.E. Britnell, The Wheat Economy (Toronto, Univ. of Toronto Press, 1939), Table 21, P. 72. AND G.E. Britnell and V.C. Fowke, Canadian Agriculture in War and Peace 1935-50 (Stanford, Stanford Univ. Press, 1962), Table IV, Pp. 446-447.

* The price of wheat to the farmer at his shipping point.

The depression did not strike equally hard at all groups and regions of Canada. Those in skilled trades, professions and white-collar occupations actually achieved a gain in real income. The loss was borne by the unemployed, by farmers and other primary producers and by those living off their investments.¹⁰

A number of factors combined to strike hard at the wheat producer. The very large world and Canadian wheat crop of 1928 resulted in a huge surplus which threatened prices even before the depression started.¹¹ In order to protect their own agricultural industries, various European countries placed high tariffs on wheat in 1930 as well as later quantit-

ative restrictions on imports. The result was a reduction of Canadian wheat exports by 150 million bushels a year. In addition, Australia and Argentina, for a variety of reasons, severely depreciated their currencies, thus reducing the effective price of their export wheat. Since both were major exporters, this further reduced Canadian wheat exports. During 1930-32 Russia pushed large exports of wheat, Danube countries subsidized exports and the United States dumped its stabilization holdings. All these factors reduced prices as well as Canadian wheat exports. Finally the Hawley-Smoot Tariff of 1930 closed out agriculture exports to the United States.¹² Since the major portion of wheat production was for export, the wheat farmer reached desperate straits.

Britnell cites an estimate based on extensive surveys in many areas in Saskatchewan in 1933 that an income of \$6.80 per acre was necessary to handle minimum expenses but excluding the servicing of interest on debts.¹³ Mackintosh, working only with available gross data for the Province of Saskatchewan and using the average yield of 16.7 bushels of wheat per acre between 1921-30, estimates a cost of \$9.81 per acre including both variable and fixed costs. This estimate does not include interest on owned or borrowed capital. Variable costs include hired labor, threshing, binder twine, since they will vary with the yield. All the rest, including family living expenses were considered fixed.¹⁴

These figures point out the reasons for the substantial expenditures on relief in Saskatchewan¹⁵ since income per acre at the average yield of 16.7 bushels per acre would have been about \$5.85 per acre. It is

therefore not difficult to see the situation facing Saskatchewan farmers when the combination of low wheat prices and poor yield during the drought reduced average income below either of these estimates. The estimates must be considered as only crude averages since the degree of mechanization and size of the farm would lead to proportional reduction in costs per acre. Furthermore cash income estimates exclude income in kind from farm gardens, beef, chickens, etc.

Drought struck in Saskatchewan in 1929 as it did throughout the Great Plains of North America. Its effects were greatest in the south of the province. For a time it looked as if Captain John Palliser's designation in 1857 to 1859 of this area as being unfit for human habitation was being proved true.¹⁶ "Palliser's Triangle" includes much of the southern part of present day Alberta and Saskatchewan and the area of most severe drought. In any event, wheat yields dropped substantially reducing income even further.

TABLE 4.2

SASKATCHEWAN WHEAT PRODUCTION IN BUSHELS

1925-1940

| Year | Total Production (Millions of Bushels) | Average Yield (Bushels) | Area Seeded (Millions of Acres) |
|------|---|----------------------------|------------------------------------|
| 1925 | 235.5 | 18.8 | 12.5 |
| 1926 | 219.6 | 16.2 | 13.6 |
| 1927 | 252.5 | 19.5 | 13.0 |
| 1928 | 321.2 | 23.3 | 13.8 |
| 1929 | 160.6 | 11.1 | 14.4 |
| 1930 | 206.7 | 14.0 | 14.7 |
| 1931 | 132.5 | 8.8 | 15.0 |
| 1932 | 211.6 | 13.6 | 15.5 |
| 1933 | 128.0 | 8.7 | 14.7 |
| 1934 | 114.2 | 8.6 | 13.3 |
| 1935 | 142.2 | 10.8 | 13.2 |
| 1936 | 110.0 | 7.5 | 14.7 |
| 1937 | 37.0 | 2.7 | 13.9 |
| 1938 | 132.0 | 9.6 | 13.8 |
| 1939 | 271.3 | 19.1 | 14.2 |
| 1940 | 266.7 | 17.1 | 15.6 |

SOURCE: G.E. Britnell, The Wheat Economy (Toronto, Univ. of Toronto Press, 1939), Table 16, P. 50. AND G.E. Britnell and V.C. Fowke, Canadian Agriculture in War and Peace 1935-50 (Stanford, Stanford Univ. Press, 1962), Table IV, P. 446.

Summerfallow, which had been the discovery which made dry land farming possible, became a serious disadvantage. The soil was deep-cultivated with no vegetation cover to hold it together. In the prolonged dry conditions, the normally high winds of the region caused severe soil drifting which exposed the sprouting grain or cut it off through the abrasive action of wind and soil particles.¹⁷ In any event, wheat production was sharply reduced and when combined with low prices, left the economy of Saskatchewan in serious decline.

The supply of credit which had always been scarce, dried up

almost completely. The credit for operating purposes which had been extended by merchants and dealers was no longer available since re-payment was difficult. Debt re-adjustment processes and general economic conditions severely reduced mortgage credit. The strength of the branch banking system had made rapid branch expansion possible. Rather than having to build up a source of capital through local savings, they could be in loaning activity immediately through savings from the rest of the system. However this same strength made it easier for banks to quickly reduce their branch outlets. The branch did not have the developer's investment tied up as in the unit bank where he was a part of the community with his own funds staked on the future of the community. The 442 branches of banks in 1929 in 385 communities were reduced to 251 in 196 communities by 1940.¹⁸ With the grain harvest as the only source of income and coming only once a year, there was still a need for intermediate and short term credit. However, most conventional sources of credit had dried up. The farm people of Saskatchewan again attempted a local solution in their struggle to control scarce resources. Since they already had considerable experience with varying forms of producer and consumer co-operatives, they turned to co-operatives as a means to meet their credit needs.

3. CREDIT UNION (CO-OPERATIVE) PRINCIPLES AND PRACTICES

Although there has always been a substantial element of ideology or "co-operative philosophy" in Saskatchewan, most efforts at formalized co-operation were highly pragmatic solutions to practical every day problems. Despite this emphasis on the practical, there was nevertheless

always an underlying utopian idealism.

Utopias and utopian thought in one form or another has been a persistent form of Western European and American political and social comment. Even from a limited reading of such literature, it would be easy to develop a long list of adjectives describing utopias. A partial list would include stable, harmonious, ordered, progressive, static, idealistic, regulated, etc. It is possible to find all these characteristics in one or another kind of utopian scheme. Three of these descriptive adjectives are in varying degrees characteristic of this kind of thought. They are idealism, criticism and a lack of realism.

Idealism, as used here, refers to some ideal state of affairs or kind of perfection not likely attainable, at least not at the particular time. The ideals of social organization expressed by Thomas More in the sixteenth century seemed like idle dreams¹⁹ but many of them, like universal medical care are now a fact in many parts of the world. The utopian ideal state or form of social organization usually stands in critical contrast to the author's society. It is in Tillich's words, an attempt "to negate the negative itself in human existence".²⁰ The lack of realism is directly related to idealism since utopian thought tends to be impossible to attain at the time in question.

These tendencies of utopian thought underly the three European traditions which form the basis for credit union practice in Saskatchewan. Two of these traditions developed in Germany and the third in England. The two German traditions were developed almost simultaneously to fight usury. One attempted to resolve rural credit problems; the other to

resolve the credit problems of wage workers and small entrepreneurs.

Friedrich Wilhelm Raiffeisen (1818-1888), as a German civil servant, was the appointed mayor of a small German town. Due to drought resulting in severe poverty in 1847-48, he formed a co-operative bakery and co-operative livestock purchasing association in 1849. He also experimented with co-operative credit in 1854 but it was not until 1869 that he formed the first mutual self-help co-operative credit society in conjunction with a wholesale co-operative purchasing society. His "people's banks" were purely rural in origin. After a slow start, they spread over much of Europe and by 1910 had loans in Germany amounting to nearly a half billion dollars.

Herman Schulze-Delitzsch (1808-1883) also began experiments with co-operatives in the famines of 1846-47 forming his first co-operative credit society in 1850. This credit was to be a means for the purchase of raw materials for shoemakers and joiners in two German villages. By 1852, with the aid of a personal friend, this first credit society had become truly a co-operative self-help organization. Like Raiffeisen, he stumped Germany with missionary zeal to spread his idea. His credit societies also spread over Europe but were oriented to wage workers and middle class producers.

Although there are similarities between the two, the contrasts are fairly marked. Schulze-Delitzsch was not concerned with the moral regeneration of the world. His efforts were economic only - to supply capital for productive purposes. Raiffeisen, on the other hand, built his credit societies on humanitarian and Christian ideals. A number of priests and ministers said they did as much morally for their church

members as did the churches. Furthermore its aim was to alleviate poverty particularly among rural people.

Underlying the Schulze-Delitzsch system was the basic idea of thrift to achieve self-sufficiency. This emphasis on thrift (or worldly asceticism) was a key concept in Max Weber's work on capitalism. As a consequence, membership fees and shares were relatively high and with limited liability. Outside aid was rejected. The source of loan capital was to be shares and savings on which comparatively high dividends were paid. Reserves were held to be important as a source of stability. The management committee was elected by the members and they were paid for their services. Their work was checked by an elected but independent committee. These credit societies covered large territories and they carried out general banking business. Their business emphasis made them strong but rather austere and impersonal.

Raiffeisen set up his credit societies to fight usury and help the poor. They covered only small areas - at most two or three small parishes. They followed a careful process of selecting members but once the selection was carried out were highly democratic. The work of the credit society was carried out by volunteers with little or no pay. They were concerned with savings and loans only and not with banking services. Entrance fees were small or non-existent and the cost of shares was low. Loans tended to be fairly long term to meet the particular credit needs of agriculture. All of the surplus went directly into slowly building up reserves to be utilized as loan capital. Furthermore, they did make use of outside funds.²¹

The third tradition comes from England. Although it has a consumer co-operative orientation, it is an important factor in Saskatchewan credit unions. In 1844 the weavers at Rochdale formed a co-operative society for the purchase of consumer goods. One analysis suggests that the formation of this organization was a means to achieve civil equality for this group of citizens within the larger society.²² Whether this interpretation is realistic, the Rochdale Pioneers did emphasize "democratic" control through the one member-one vote principle. Two other operating principles stress equality; voluntary, open membership and distribution of surplus according to patronage. They also held that there should be limited interest on capital, political and religious neutrality, cash trading and the promotion of education.²³

Credit unions, or more appropriately *caisses populaire** (people's banks) were brought to Canada through the efforts of Alphonse Desjardins, a Quebec journalist and legislative reporter. In both occupations he became aware of the problems created by usury. He began a study of the work of Raiffeisen and Schulze-Delitzsch. As a result he set up the first *caisse populaire* in his home town of Levis, Quebec in 1900 and helped to set one up in Manchester, New Hampshire in 1909. His people's banks were based on the territory of the rural parish.²⁴ From this beginning in Quebec they spread in modified form throughout the United States and Canada.

*The French name *caisses populaire* will be used interchangeably with the name credit union throughout this study.

Utopian idealism and criticism is discernible in all three of the European credit society traditions. Raiffeisen idealism is directed at removing poverty while his criticism is directed at usurious practices. Schulze-Delitzsch attempted to achieve the ideal of making all people small scale and hence independent capitalists. His criticism is directed at the inefficiency of the capitalist system which cannot supply the capital needs of the small scale producer. The Rochdale Pioneers attempted first to improve their economic situation through a consumer co-operative and secondly through education and activity to achieve social equality for their members. Their criticism is directed at the early stages of industrial capitalism. Desjardins attempted to use Raiffeisen's idealism to help the disadvantaged and combat usury.

All of these efforts were basically unrealistic, as one of the founders of Saskatchewan credit unions pointed out.²⁵ In discussing the role of research in co-operative development, he raised the point that co-operatives or credit unions would not have started had research been available to these budding organizations. It became clear in his view that the rationalistic emphasis of research on means-ends calculability and accountability would have shown the impractical nature of such developments in times of severe economic dislocation. From a rationally calculable frame of reference, he was probably correct since the whole economic situation sharply reduced any chances of eventual success.

4. CREDIT UNION PRINCIPLES AND PRACTICES IN SASKATCHEWAN

In 1913, the Government of Saskatchewan appointed the Saskatchewan Agricultural Credit Commission which, after detailed international and local study, recommended the formation of a co-operative mortgage association. The Saskatchewan Farm Loan Board was formed in 1913 but was not very effective since its primary purpose as a publically owned bank seems to have been to lower interest rates.²⁶ This was followed in 1923 by the Federal appointment of Dr. Marshall Tory to examine provincial agricultural credit. He, too, recommended co-operative credit sources but in this case for short-term loans.²⁷

The combination of experience with co-operatives and credit union activities in Quebec, Nova Scotia and the United States based on European traditions led to the development of credit unions throughout Canada. In 1932 Nova Scotia enacted the first Canadian credit union act. It helped to stimulate development activity in the rest of Canada. At the meeting of the Co-operative Union of Canada in Regina, in 1933, a resolution was passed urging credit union legislation for Saskatchewan. This was the earliest reference to credit unions in the province. In 1934, at the first conference of Co-operative Trading Associations, one of the speeches dealt with the topic of credit unions. At the same conference in 1936 a committee was appointed to examine the possibility of getting credit union legislation. The first Credit Union Act in Saskatchewan was proclaimed into law June 30, 1937 and the first credit union was formed in August of that year.²⁸

Desjardins, in bringing credit unions to North America attempted to use the best of both German traditions. The Desjardins' tradition

was combined with co-operative experience and Rochdale principles to give the comparatively unique Saskatchewan form of development. In credit union terminology, the "bond of association" is the basis for establishing the potential membership base. It may be a community, an association such as a parish, labor union, group of government employees or an industrial group such as employees in a plant or an occupational group. In Quebec it is generally the parish like the Raiffeisen societies. The Nova Scotia credit unions were based on the community, frequently rural; seemingly a combination of the large territory of Schulze-Delitzsch and parish of Raiffeisen. Except for the initial development phase, Saskatchewan followed this pattern only more successfully, particularly for rural communities.²⁹

Canadian credit unions tend to be based on community so that 51.7 per cent of Canadian credit unions in 1966 were of this type while only 3.2 per cent are so constituted in the United States.³⁰ In Saskatchewan 84.6 per cent are community based. Even the largest, urban community credit unions have a substantial farm membership. Rural community credit unions make up 80.3 per cent of the total in Saskatchewan.³¹

The closeness of ties to consumer co-operatives in Saskatchewan is borne out by the fact many credit unions were based on the local community consumer co-operative bond of association. Despite a trend away from this practice, some still have the co-operative association name as part of their official name.

The combination of the three traditions in Saskatchewan includes major factors from each. The adopted principles are those of the

Rochdale pioneers, although in practice there are important modifications from the two German traditions. Thus in recent years the large territory has become increasingly significant as a result of branch development and amalgamations. Furthermore there is an increasing tendency to emphasize full banking services. Reserves are primarily used to maintain stability but also help to pay comparatively high dividends to attract savings. These practices are similar to those of Schulze-Delitzsch. On the other hand the emphasis on agricultural credit as well as the emphasis on moral regeneration through savings or thrift and provident loans come from Raiffeisen. Yet the emphasis on provident and productive loans is a mixture of the two traditions, for Schulze-Delitzsch stressed productivity. It is out of this mixture that the Saskatchewan credit unions emphasize savings and loans as a means to make the individual self-sufficient and in this way meet the ideal of developing a better way of life for the individual.

Spiro effectively describes this philosophical dualism between co-operation as a way of life and as a means to achieve particular ends. "Segmental cooperation" is practiced "for the better attainment of specific economic ends (only) when it promises economic benefits" and "comprehensive cooperation" ... "all the essential interests of life are satisfied in a cooperative way cooperation becomes a new way of life".³² The credit unions have tended to emphasize the segmented co-operative effort for increasing economic effectiveness. Yet in the Saskatchewan credit unions with the emphasis on services, on member needs and the ideals of mutuality, there seems to be an equally strong emphasis on social reform. This dualism rose out of the traditions which were adapted to the needs of Saskatchewan people.

5. THE STRUCTURE OF SASKATCHEWAN CREDIT UNIONS

The first Credit Union Act was passed in 1937 yet the present Act, revised in 1965, with minor amendments each year, will help to define the present structure of credit unions in Saskatchewan. In 1944 a new government department was formed called the Department of Co-operation and Co-operative Development. The Deputy Minister of this Department, who is also the Registrar of Credit Unions, was and continues to be responsible for administering the Act through the Credit Union Services Branch.

Although the Act clearly stipulates certain inspection and regulative duties of the Departmental staff,³³ the staff emphasize the assistance aspect of their roles thus acknowledging the independence of each credit union. Each credit union tends to emphasize its independence from other credit unions and to a considerable extent form its own central organizations.

Although few new credit unions are now being chartered, the incorporation procedure under the act is fairly simple. Any ten or more residents of Saskatchewan, after fulfilling certain minimal legal requirements, file with the Registrar of Credit Unions a memorandum of association. If all requirements are met and the operation is considered economically feasible, the credit union is issued with a certificate of incorporation or charter and may begin operation.³⁴

The section of the Act stating the objects of credit unions reflects the varied traditions discussed earlier:

"The objects of a credit union shall be the promotion of thrift among its members and the creation of a source of credit for its members at legitimate rates of interest exclusively for provident and productive purposes."³⁵

The ideals expressed in this section seem somewhat inappropriate in a society in which consumption has become increasingly important. It does serve to point out however, the practical and pragmatic base on which credit unions were formed.

Credit union members, through the elected boards, and the annual meeting set the general credit union policy.³⁶ Members also have the right of recall of any elected official at a regular or special meeting called for that purpose.³⁷

The election of a pro-rated number of directors takes place at each annual meeting. The Board of Directors has the general management control of the affairs of the credit union which are in turn usually delegated to hired management and staff. The hiring of staff, however, does not limit the legal management responsibility of the Board.³⁸

Very early in the development of credit unions their representatives formed a number of central organizations. Each of these organizations was formed to fill certain, special needs which the credit unions could not effectively meet by themselves. In 1938 they formed an informal federation as a focal point for meetings of credit union representatives to exchange views and information. With a change in the Credit Union Act, it was chartered in 1942 as the Credit Union Federation of Saskatchewan. In 1948 the name was changed to the Credit Union League of Saskatchewan. Its purpose was to develop credit union education programs, co-ordinate credit union activities, aid in setting up new credit unions, give assistance in programs and operations to all credit unions through its field services, aid in training and selecting staff, scrutinize legislation and propose changes and provide supplies and

services to credit unions including printing of annual reports, supplying forms, etc.³⁹

The Saskatchewan Co-operative Credit Society Limited was incorporated in 1941 mainly as a depository for surplus and reserve funds of credit unions as well as a source of short and intermediate term loans. Its members were the credit unions and co-operatives in Saskatchewan. Until 1968 credit unions were mostly depositors in the credit society except for loans for new or fixed capital projects such as the purchase of equipment, building of offices, etc., while co-operatives were mainly borrowers. When national monetary policy moved toward credit restraint (tight money) about 1968, credit unions became borrowers on a larger scale. The always present, usually latent conflict between the investor or saver and the borrower meant that careful rationing of loan funds as a comparatively scarce resource became necessary.⁴⁰

As the Credit Society developed along with the credit unions in the Province, it developed other services to meet the needs of members of credit unions. The Credit Society, through a variety of deposit programs for credit unions meets two needs - a means of earning income through these deposits and secondly to help maintain credit union liquidity needs. Its investment portfolio is such as to meet both these needs. In addition it offers development capital to credit unions and mobile offices for new credit unions or branches. Since 1955 it has also been a central clearing house for credit union negotiable orders (cheques). Money orders, travellers cheques and other "banking" services such as cash for credit unions are also

offered by the Credit Society, plus a variety of grants for education extension, research as well as loans and other assistance to student co-operative housing.⁴¹

The negotiable order service of credit unions for which the Credit Society offers central clearing services offers one example of the conflict with banks. Since credit unions are not banks, they are not allowed to call their cheques by that name but rather refer to them as negotiable orders by law. Yet in every way these negotiable orders are treated as cheques even by the bank clearing system.⁴² Thus a guaranteed form of check introduced in 1969 has been registered as CU-CHEK to avoid the connotation of cheque but at the same time imply it.

A third central organization was formed in 1952. The Co-operative Trust Company was formed to supply long-term agriculture credit needs and to overcome the high cost of estate administration.⁴³ Its member owners consist mainly of credit unions as well as a few local co-operative associations and central co-operative organizations. It offers to credit union members will, trust and estate administration service as well as annuities, a mutual investment fund, long-term loans and other special investments which credit unions cannot offer. In December of 1967, it became the Co-operative Trust Company of Canada through a national charter with offices presently in Saskatchewan and British Columbia. Since both the Credit Society and Co-operative Trust rely heavily on credit union surplus funds as sources of loan capital, there is an inherent resource conflict between them.

In 1953, the credit unions formed the Mutual Aid Fund largely under the auspices of The Credit Union League of Saskatchewan. It

is an independent organization to which credit unions annually pay 5 per cent of their net surplus. Its purpose is to act as an independent reserve to protect the savings of credit union members. With some justification they proudly state that no member of a credit union has ever lost money in a credit union since the first one was organized in 1937, despite the dissolution of many credit unions in the interim.⁴⁴ It also lends funds to credit unions for the purchase of safekeeping equipment as well as giving a variety of grants for education and other general assistance.⁴⁵

In June, 1966 The Co-operative Trust, Credit Society and League formed a wholly owned subsidiary known as the Credit Union Research Council. Its purpose was to carry out research studies on behalf of credit unions and their central organizations.*

6. GENERAL DEVELOPMENT TRENDS

Many of the factors which led to change in the structure and function of credit unions and their central organization began within the first two decades of their existence. One such factor was their rapid rate of growth in the decade of the 1950's when their growth rate considerably exceeded the rate of growth of gross domestic product in Saskatchewan. Their secular, long term growth cycle approximates an "S" curve. The flatter part of the slope indicating slower growth occurs in the periods 1937-1950 and after the mid-1960's. The steeper

* The writer became an employee of this organization from its inception and was therefore a participant and observer in many of the changes to be described later.

slope indicating more rapid growth took place in the interim period.

Part of this growth occurred because credit unions were replacing the departed banks in the relatively good economic conditions following World War II. The chartered banks, until about the beginning of the 1960's largely ignored consumer credit which was becoming an increasingly important segment of all credit. Credit unions because of their size, comparatively local base and emphasis on character loans were ideally suited to expand in this field of consumer credit. However, at about this time the banks became increasingly competitive.

A number of other factors took on increasing significance. Brief problems in the economic sector in 1961 and 1964 as well as reduced wheat production in Saskatchewan in these years was followed by a wheat surplus and poor harvesting conditions in 1967. The resulting reduction in farm income meant a reduction in the inflow of savings into credit unions. Restrictions in the money supply in 1965-66 eased only briefly in 1967 and then continued to the present. Furthermore the amendments to the Bank Act in 1967 removed the ceiling on bank loan interest rates. The increased revenue allowed banks to increase interest rates on savings. This factor, too, increased the competition on the savings coming into credit unions. The credit unions responded by developing higher interest-bearing term deposits.

Agriculture in Saskatchewan has been going through continuous change. Farms, besides increasing in size, are adopting improved technological methods. Rural areas and towns were losing population to larger centres. These facts, not as noticeable in good economic conditions, became organizational problems with "tight money" and the

world wide wheat surplus resulting in reduced farm income particularly in declining rural centres. Many of these smaller credit unions, because of their size, could not meet the demand for costly "banking" services.

A symptom of the resulting changes is the fact that credit unions have reduced in number. In March, 1970 there were 277 credit unions, down from 299 in December, 1967. This reduction in autonomous credit unions did not, however, mean a reduction of offices, for through a process of developing larger units by branch development and amalgamation, the number of offices now exceeds 320. These large units, through bulk purchases of supplies and other similar related economies of scale, were able to supply more and better services at less unit cost. The larger units met more of the members service needs but were less personal and friendly than the smaller units. There was an inherent contradiction in this development process.

Credit unions, from their inception in Saskatchewan, emphasized thrift or the wise use of savings and loan resources. The member was to save and use credit to improve his standard of living through better buying and also to save for specific purposes and for future security. Much of the saving for security and old age became meaningless with the inception of the Canada Pension Plan, Medicare and other forms of non-voluntary or non-discretionary savings. The immediate effect is not a drastic reduction in savings but when combined with other factors is a potential loss of savings and hence loan capital.

About 1966 these factors combined to strike at the smaller, less efficient credit unions. The need to retain members and capital through new or better services which resulted in increased costs forced the

adoption of new structures. The balance sheet (business efficiency) came into conflict with credit union philosophy. At the same time, the latent conflict between credit unions and other financial agencies, particularly the banks became overt once more.

A series of adjustments were taking place. As a result of efforts of various credit union representatives, the League and Credit Society hired a consultant firm in the fall of 1966 to aid in drawing up a rational credit union development plan. The firm recommended the merger of the League and Credit Society to make more efficient use of their combined resources.

In addition, a number of credit union representatives wanted to include Co-operative Trust in the merger. The merger, without Co-operative Trust, became official in the spring of 1970. Even as early as the spring annual meeting in 1967, merger was considered only a first step. A large credit union presented a resolution at this meeting advocating merger of all credit unions with the Credit Society to form a single provincial credit union. The resolution was passed in amended form as a basis for study. Regional credit union development examined several years earlier had in actual fact been dropped as impractical.

In summary, the local basis of development which gave credit unions much of their strength during the early years of their development became a potential weakness as rural communities declined. The agriculture industry had just begun to move into its more technological and rationalized phase when drought and depression reduced the sources of operating, consumption and development credit. Credit unions, based on certain, long standing European traditions in co-operatively meeting credit needs,

initially met the first two kinds of credit needs. As conditions improved, farms began to grow in size with a consequent decline in the smaller rural communities. Thus their initial community base which had made it possible for credit unions to meet local needs, even to financing local utility services, foreshadowed their decline parallel to the declining small community.

In the next chapter the study will begin a more detailed examination of the growth of credit unions as alternative sources of credit and banking services in Saskatchewan.

FOOTNOTES

¹W.T. Easterbrook, Farm Credit in Canada, (Toronto, Univ. of Toronto Press, 1938), Pp. 32, 34, 36, 52, 53.

²Ibid., Pp. 44, 45.

³Ibid., Pp. 51-53.

⁴Ibid., P.61.

⁵Ibid., Pp. 106-110.

⁶Ibid., Pp. 129-133, 139.

⁷Ibid., Pp. 158-162.

⁸W.A. Mackintosh et al., Economic Problems of the Prairie Provinces (Vol. 4 of W.A. Mackintosh & W.L.G. Joerg, Eds., Canadian Frontiers of Settlement, 9 Vols., Toronto, The MacMillan Co. of Canada Ltd., 1935), Pp. 188, 189.

⁹Ibid., P. 189.

¹⁰Report of the Royal Commission on Dominion-Provincial Relations Canada: 1867-1939, (Book 1-3, Ottawa, 1940), Pp. 147, 148.

¹¹Ibid., P. 144.

¹²Ibid., P. 145.

¹³G.E. Britnell, The Wheat Economy, (Toronto, Univ. of Toronto Press, 1939), Pp. 76-77.

¹⁴W.A. Mackintosh et al., Op. Cit., Pp. 29-30.

¹⁵Report of the Royal Commission on Dominion-Provincial Relations, Op. Cit., P. 169.

¹⁶W.G. Hardy, From Sea Unto Sea, (Garden City, Doubleday & Co. Inc., 1960), P. 90.

¹⁷G.E. Britnell & V.C. Fowke, Canadian Agriculture in War and Peace 1935-50, (Stanford, Stanford Univ. Press, 1962), P. 63. The effect of depression, drought and dust is told with compelling sincerity in J.F.C. Wright, The Louise Lucas Story, (Montreal, Harvest House, 1965).

¹⁸To The Royal Commission on Banking and Finance: A Brief, presented by the Credit Union League of Saskatchewan and Saskatchewan Co-operative Credit Society Limited and Co-operative Trust Company Limited, (Regina, Credit Union League of Saskatchewan, 1962), P. 2.

¹⁹Thomas More, "Utopia" in James J. Greene and John P. Dolan (Ed.), The Essential Thomas More, (New York, New American Library Mentor-Omega Books, 1967).

²⁰Paul Tillich, "Critique and Justification of Utopia" in Frank E. Manuel (Ed.), Utopias and Utopian Thought (Boston, Bacon Press, 1965), P. 296.

²¹SOURCES INCLUDE: Henry W. Wolff, People's Banks (London, P.S. King & Son, 1910), Pp. 77-165. AND Roy F. Bergengren, Cooperative Banking - A Credit Union Book (New York, The MacMillan Co., 1923), Pp. 41-49. AND George Davidovic, Reformulation of the Co-operative Principles (Ottawa, The Co-operative Union of Canada, 1966), Pp. 5-6.

²²G.N. Ostergaard and A.H. Halsey, Power in Co-operatives: A Study of Democratic Control in British Retail Societies (Oxford, Basil Blackwell, 1965), Pp. xii-xiii.

²³George Davidovic, Op. Cit., P. 5.

²⁴Roy F. Bergengren, Op. Cit., Pp. 50-53.

²⁵Personal conversation with Dr. Barney Arnason, former Registrar of Credit Unions and Deputy Minister of Co-operation and Co-operative Development at the annual meeting of the Credit Union League of Saskatchewan and Saskatchewan Co-operative Credit Society in March, 1967.

²⁶W.T. Easterbrook, Farm Credit in Canada, (Toronto, Univ. of Toronto Press, 1938), Pp. 47, 59.

²⁷Ibid., P. 134. AND Muriel Clements, By Their Bootstraps, (Toronto, Clarke, Irwin & Co. Ltd., 1965), P. 33.

²⁸Dr. B.N. Arnason, History, Philosophy and Development of the Credit Union Movement in Saskatchewan. Address to the Delegates of the 21st Annual Meeting of the Credit Union League of Saskatchewan, Regina, March 10, 1959, Pp. 1-2.

²⁹Gilles Mercure, Credit Unions and Caisses Populaires, (Ottawa, working paper prepared for the Royal Commission on Banking and Finance, 1962), Pp. 29, 30, 37, 38.

³⁰Cuna International, Inc., International Credit Union Yearbook (Madison, Wisconsin, CUNA Int. Inc., 1966).

³¹Department of Co-operation and Co-operative Development, Supplement To The Annual Report, (Regina, 1969). As of Dec. 31, 1968.

³²Melford E. Spiro, Kibbutz: Venture in Utopia, (New York, Schocken Books, 1956), P. 4.

³³Government of Saskatchewan, The Credit Union Act Revised Statutes of Saskatchewan 1965, (Regina, Queens Printer, 1965), Sections 99 + 100.

³⁴Ibid., Sections 4 to 8.

³⁵Ibid., Section 19.

³⁶Ibid., Sections 28, 30.

³⁷Ibid., Section 33.

³⁸Ibid., Section 58.

³⁹Dr. B.N. Arnason, Op. Cit., P. 3. AND The Credit Union League of Saskatchewan, (undated pamphlet). AND Help Yourself, (1966 pamphlet, no publisher or place).

⁴⁰Saskatchewan Co-operative Credit Society Limited, Report 1968 (Regina, 1969), Pp. 3-5.

⁴¹Ibid., Pp. 6, 7. AND Saskatchewan Co-operative Credit Society Limited, Handbook, (no date or place).

⁴²Help Yourself, Op. Cit., P. 17.

⁴³Dr. B.N. Arnason, Op. Cit., P. 4.

⁴⁴The Credit Union League of Saskatchewan, Op. Cit.

⁴⁵Credit Union Mutual Aid Board, Annual Report for Year Ended December 31, 1969.

CHAPTER V

THE GROWTH OF CREDIT UNIONS IN SASKATCHEWAN

The historical outline of the origin of credit unions in Saskatchewan pointed to a number of crucial factors in their relatively rapid growth. Sources of credit and certain banking services following drought and depression in the 1930's were sharply reduced in number. The need, however, for credit and these other services continued with the result that there was little competition to hinder the growth of credit unions until the early 1960's when they were faced with increasing savings and loan competition from the banks. In time this competition turned into outright conflict over relative position.

1. THE BASIS OF GROWTH

The farmers of Saskatchewan received most of their income at harvest time in the fall. Consequently many of their operational and consumption needs for the rest of the year were met through credit. With the poor wheat yields and low prices, farmers became poor credit risks in the conventional commercial sense. A new source of credit was needed and was soon filled by credit unions. The desperate need for sources of credit helped to shape the development and growth of credit unions in the province.

Mercure has pointed out that the caisses populaires of Quebec, despite the strong European influence to develop as a source of credit, were conservative in loan granting and instead emphasized thrift and savings to resolve distribution and productive problems. The Nova Scotia

credit unions, on the other hand, under the impetus of the Antigonish co-operative movement, emphasized credit. The same emphasis on credit granting is also apparent in the United States.¹

In Saskatchewan, the credit unions, from the first emphasized credit granting especially since other credit sources were limited. Savings, being the source of loan capital were, of course, important but along with thrift, were given secondary emphasis.² Emphasis on either saving or borrowing raises a very fundamental conflict inherent in the function of financial intermediaries. Their function, generally, is to aggregate the surplus funds of individuals or organizations to lend to other individuals or organizations. The saver tends to want the best possible return concomittant with security while the borrower wants to pay the lowest possible rate for the money he borrows. As Mercure suggests, by emphasizing credit, the conflict between borrower and saver is resolved in favor of the borrower.³ With credit becoming increasingly scarce in Saskatchewan following 1930, this emphasis was a practical solution to meet a real need.

How scarce did credit become? In 1931, the majority of farm mortgage loans in the Prairies totalling an estimated 650 million dollars were held by Canadian life insurance, trust and loan companies as well as private individuals. Most of the corporate mortgage lenders were Eastern concerns.⁴ The experience of life insurance companies in mortgage lending in Saskatchewan serves to illustrate the difficulties in credit granting in this period.

Despite the increasing total assets of life insurance companies in Canada between 1921 and 1937, farm mortgage loans held by them reached

a peak of about 44 million dollars in 1929. Thereafter until 1937 when this particular statistical series is discontinued, there is a steady decline in mortgage loans to 31.8 million dollars in 1937.⁵ This decline would likely have been more rapid had the mortgage borrowers been able to pay off outstanding loans. After 1930 there was a rapid increase in the number of loans on which interest payments were overdue by one year or more. Loans on which interest was overdue rose from 2.9 million dollars in 1929 to 7.8 million dollars in 1930. and 32.8 million dollars in 1935. The last figure is out of a total of 38.0 million dollars in mortgage loans outstanding. As is pointed out in the 1931 report of the Superintendent of Insurance, somewhat redundantly, there were substantial increases in overdue loans, loans written-off, and foreclosures in that year over previous years.⁶ Under conditions like these, mortgage lending was severely curtailed.

By law, the chartered banks could not make loans on the security of land or buildings in the first instance and therefore were short-term lenders. Consequently they held only about 7.4 per cent or 48 million dollars of total Prairie farm debt in 1931. The experience of all commercial lenders with the cyclic nature of the agricultural economy tended to raise interest rates in the Prairies from 1 to 3 per cent higher than for similar kinds of loans in Ontario.⁷ Whether these higher rates were legitimate or not, they aroused considerable resentment among Prairie people. By law, bank loan interest rates were limited to 7 per cent but in practice actual rates were 9 per cent to 10 per cent.⁸ This, of course, added to the resentment and complaints.

The banks tried to keep the term of their loans to a period of

one year or less and whenever possible insisted that these loans be cleared up each year. In general, the banks did not develop the facilities to handle small loans, although most did grant personal security loans but on the basis of regular repayment, or in other words, to salary or wage earners.⁹ Because of crop conditions and wheat prices after 1930, farmers could not repay their loans and consequently were unable to get further credit.¹⁰ In many communities, despite poor conditions many people had accumulated savings for old age or other reasons, yet little of this money was being lent to local people. Since it did not come into the community, people felt it was being used in the East thereby increasing their resentment of these Eastern banks.¹¹ Nevertheless, the activities of the banks were not a conspiracy to destroy the farmer but rather were sound business practices. These practices did, however, increase farm problems for with poor yields and prices, it was impossible in most cases to get the needed operating capital. Frequently these credit needs were for very small amounts yet credit was not available from conventional sources. More will be said on these credit needs later.

Other sources of credit for the purchase of farm equipment, consumer goods and services were local retail outlets such as stores, dealers, etc. In 1931, they were estimated to hold nearly 60 million dollars or 9.2 per cent of credit outstanding in the Prairies at that time. It, too, was short-term credit.¹² Retail sales in Saskatchewan in 1930 were estimated to total 189 million dollars.¹³ There are no available figures indicating what proportion of total sales were made on credit. In a survey on co-operative credit in Saskatchewan, interviews were con-

ducted with 94 small businesses in 1947, but only a few were in business prior to 1930. The size of the sample therefore precludes any realistic estimates. Three of the eight individuals operating stores prior to 1930 estimated credit sales making up 50 to 75 per cent of total sales. They indicated substantial reduction in credit sales after 1930. Implement dealers also indicated substantial credit sales prior to 1930, with a considerable reduction to 1935 and then a reversal thereafter.¹⁴ Not only did credit sales decrease after 1930, but retail sales dropped to a low of 103 million dollars in 1933 and even by 1940 had only reached 162 million dollars, still 17 million short of the 1930 level.¹⁵

Not only were general economic conditions deteriorating with credit sources drying up, but as well, credit outlets were decreasing. Banks in Canada reduced their branches by 772 between 1930 and 1940 from 4083 to 3311 branches.¹⁶ In Saskatchewan in the same period, they reduced the number of branches by 214 from 447 to 233.¹⁷ Thus Saskatchewan with never more than 10 per cent of the Canadian population in this decade was faced with a 27.7 per cent reduction in bank branches.

The conditions leading to a scarcity of the resource of credit are summarized below in point form:

- (1) Saskatchewan's economy was heavily dependent on the agricultural industry and especially the commodity of wheat.

- (2) Drought drastically reduced wheat yields.

- (3) Depression plus a world wide surplus of wheat drastically reduced wheat prices.

- (4) The dependence on a once a year income from the harvest meant heavy reliance on credit.

(5) Reduced income from poor yields and prices reduced re-payments resulting in severe restrictions on credit.

(6) Business practices intensified resentment against "Eastern" concerns.

(7) Local experience with producer and marketing co-operatives, as well as with informal co-operation coupled with Canadian and United States experience with credit unions set the stage for credit union development.

2. CREDIT UNIONS AS AN ALTERNATIVE SOURCE OF CREDIT

The analysis to the present has dealt only with the context in which credit unions became a highly probable solution to the struggle for control of a scarce resource.

Despite the need for rural credit, the first credit unions were set up in urban centers and the first eleven charters were issued to associational and occupational groups. The first rural credit union with Charter No. 12 was set up in Lafleche in April, 1938, some six months after the Credit Union Act was passed. The community, as "bond of association" or potential membership group, now became an important part of credit union development. The Lafleche credit union, in fact, used the word, Community, as part of its official title.¹⁸ By the end of 1948, after ten full years of development, 176 out of the total of 216 credit unions (68.0 per cent) were rural community credit unions. This figure somewhat under represents the total of credit unions dealing with rural members for a number of the associational credit unions located in larger urban centers also served the rural population.¹⁹

This rapid growth in number of credit unions attests to the extent of need.

Credit unions, from the first, were set up as sources of short term credit.²⁰ Although they did handle some mortgage loans, it was only a comparatively small proportion of total loans and usually to assist those with difficulties in existing mortgages. This kind of assistance in mortgage loans in the early years of development made up a comparatively large proportion of total loans - 23.5 per cent in 1944 and down to 9.3 per cent of total loans in 1949 and increasing relatively slowly thereafter.²¹ The remainder of their loans were short term to finance purchase of equipment, consumer durables, goods and services and brought them into direct competition with banks and retail credit sources. This would become the source of future conflicts over control of resources and relative position. A partial list of the type of loans by purpose would include: farm machinery and repairs; home improvements and buildings; general farming expenses; autos, trucks and accessories; seeds and seed supplies; harvest and threshing; livestock; medical, dental and hospital; furniture and clothing; taxes; vacations; education; etc.²²

The survey of co-operative credit in Saskatchewan referred to earlier addressed itself directly to the matter of credit. Questionnaires (mail) were administered in 1946 and 1947 to 826 rural people of which 699 were credit union members. Nearly one quarter of those responding (778) had been refused credit at some time in the past. The proportion of refusals is not likely a full indicator of the credit available since at least some of the responding group probably never applied for credit either due to economic conditions, age or other considerations.

In other words, credit refusals are not necessarily an indication of credit applications.

Nearly 77 per cent of the responding credit union members (only 429 of the 699 credit union members responded to this question) felt that credit unions could meet their credit needs. Some of the respondents, however, indicated that credit resources might be more adequate due to improving economic conditions.²³

These responses, when coupled with those of the merchants interviewed indicate that the credit union was viewed as an adequate alternative source of credit. Over two thirds (69 out of 92 merchants) felt that most of the increase in the proportion of cash sales came about as a result of credit union lending. Some of the merchants expressed the view that credit unions were curtailing their credit business which was a good source of income.²⁴ From these responses credit unions were obviously considered as alternative sources of credit.

Other more specific comments support these findings. At an early meeting of the Credit Union Federation of Saskatchewan, one of the participants referred to certain loan experiences of his credit union. One loan was for the requested amount of \$25.00 to meet child birth expenses. The other case dealt with an overdue mortgage of \$13,000.00 plus \$1,300.00 in back taxes. Credit union officials negotiated with the mortgage loan company arranging for them to pay the taxes and reduce the loan in return for partial payment. By selling some of his land, the member was able to reduce the loan outstanding to \$6,000.00.²⁵

There is other evidence which points out that despite the small size of individual loan needs, excluding for the time being mortgage

retirement lending, credit was just not available except through the credit union. Small loans, seldom above \$100.00 in amount were made for such purposes as the purchase of binder twine (\$50), a hand plough (\$10), second hand tractor (\$500), seed and livestock (less than \$50) and a joint purchase venture for a snow plough (\$50 each).²⁶ These are all remembered accounts of those involved in setting up local credit unions and thus, of course, subject to errors of memory. The small size of the loans are also no doubt partially due to the limited assets of the developing credit unions.

The department of Co-operation and Co-operative Development statistical reports bear out these accounts, however, for the average size of loans was comparatively small in the years of formation.

TABLE 5.1
CREDIT UNION LOANS IN SASKATCHEWAN AT YEAR END
1937-1947

| Year | Amount of loans made in dollars | Number of loans | Average size of loans in dollars |
|-------|---------------------------------------|-----------------------|--|
| 1937* | 2,571 | 47 | 55 |
| 1938 | 36,883 | 765 | 48 |
| 1939 | 117,218 | 1,812 | 65 |
| 1940 | 223,976 | 3,119 | 72 |
| 1941 | 295,105 | 3,656 | 81 |
| 1942 | 435,668 | 5,127 | 85 |
| 1943 | 821,643 | 6,491 | 127 |
| 1944 | 1,631,859 | 7,581 | 215 |
| 1945 | 2,482,745 | 9,036 | 275 |
| 1946 | 3,611,979 | 11,915 | 303 |
| 1947 | 4,649,149 | 13,618 | 341 |

From First and Fifth Annual Report Department of Co-operation and Co-operative Development of the Province of Saskatchewan 1945 - P. 74 and 1949 - P. 21 (C.U.)

* Four months only.

It was not until 1943 when annual loans made approached the aggregate amount of about one million dollars, that the average size of loan exceeded \$100.00.

One other factor in early credit union loaning activity lends further credence to the fact that credit unions initially, at least, were emphasizing loans rather than saving. During the period 1937 to 1943, the amount of loans made each year was greater than total assets at year end (see Table 5.3, P.101). Loans in force were, of course, less than assets. It was the small size and rapid turnover of loans which made this aggregate loaning activity possible.

Indirectly this also points out the extent of demand for credit union loans thereby suggesting again that they were seen as an alternative source of credit. By 1944, consumer purchases and credit needs decreased loans in force to the extent that they made up only 29 per cent of assets, down from 45 per cent in 1943 and even a further drop from 65 per cent in 1942.²⁷ Much of this effect was no doubt due both to war time restrictions and improved economic conditions.

The Department of Co-operation and Co-operative Development Research Department has calculated indices of loan activity for credit unions, small loan companies and banks since 1951. The rate of rapid relative growth in loan activity for Saskatchewan credit began again in 1959.

TABLE 5.2
INDICES OF OUTSTANDING LOANS FOR CREDIT UNIONS
SASKATCHEWAN AND CANADA
and
FOR SMALL LOAN COMPANIES
and
CHARTERED BANKS IN CANADA
INDEX BASE: 1956 = 100
1951-1968

| Year | Credit Unions | | Small Loan Companies | Chartered Banks |
|------|---------------|--------|----------------------|-----------------|
| | Saskatchewan | Canada | | |
| 1951 | 38.0 | 35.8 | 32.0 | 43.1 |
| 1952 | 55.0 | 44.3 | 41.6 | 51.1 |
| 1953 | 79.9 | 60.8 | 49.4 | 65.1 |
| 1954 | 85.2 | 71.2 | 60.4 | 74.4 |
| 1955 | 87.8 | 78.3 | 78.3 | 98.3 |
| 1956 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1957 | 112.2 | 112.7 | 101.7 | 99.1 |
| 1958 | 132.3 | 139.1 | 112.6 | 129.1 |
| 1959 | 182.5 | 173.6 | 135.9 | 164.6 |
| 1960 | 229.3 | 189.1 | 154.2 | 193.0 |
| 1961 | 274.7 | 227.4 | 166.8 | 231.7 |
| 1962 | 359.4 | 254.2 | 200.6 | 264.9 |
| 1963 | 460.7 | 325.9 | 227.0 | 317.8 |
| 1964 | 570.7 | 396.2 | 253.1 | 394.3 |
| 1965 | 715.3 | 465.6 | 289.0 | 477.6 |
| 1966 | 802.2 | 510.8 | 328.7 | 523.9 |
| 1967 | 955.0 | 592.0 | 368.7 | 645.5 |
| 1968 | 1072.5 | -----* | 384.6 | 789.2 |

Taken from: Twenty-fifth Annual Report of the Department of Co-operation and Co-operative Development of the Province of Saskatchewan for twelve months ended March 31, 1969, P. 21.

* Not available.

After 1959 the credit union loans outstanding, as measured by these indices, grew most rapidly in comparison to other Canadian lending institutions except in the period 1967-68 when the banks grew faster. This growth again points to credit unions as an alternative source of credit in Saskatchewan. In savings, a similar index points to most rapid growth for Saskatchewan credit unions beginning in 1956.

At an early meeting of the Credit Union Federation, discussion revolved around future conflict between banks and credit unions as credit unions grew in size. In the view of the representatives present at this meeting credit unions were doing what banks could not do. In the following discussion a suggestion was made that credit unions should develop clearing mechanisms to handle cheques and thus ultimately become another bank resulting in competition rather than conflict. Credit unions, in other discussions, were clearly identified as alternative credit sources but with the unique characteristic of emphasizing thrift or the wise use of resources rather than just as credit marketing institutions.²⁸ At a later annual meeting the matter of the need for chequing facilities for credit unions, particularly in "bankless" towns, resulted in a resolution to develop the appropriate cash transfer forms.²⁹

The basis for accepting the view that credit unions were alternative sources of credit is summarized below:

- (1) The regular sources of credit were sharply reduced after 1930.

- (2) The types of loans issued by credit unions in short term operating credit and consumer loans were the areas where loans were

most sharply reduced.

(3) The number of small loans made by credit unions indicates that even the smallest loan needs could not be met by conventional lenders and credit unions became the alternative source of credit.

(4) The credit unions in rural areas expanded very rapidly in numbers.

(5) Credit unions quickly expanded their services to fill the "banking" service needs resulting from the departure of bank branches.

3. CREDIT UNION GROWTH IN SASKATCHEWAN

In December, 1937, after four months of operation, there were 5 credit unions with 268 members and assets of \$2,236.00. By March 30, 1970, nearly 34 years after this small start, there were 277 credit unions with 43 branches, 311,170 members and assets of 388 million dollars.³⁰ In the process of this rapid growth, not only were loan and savings activity expanded but so were other services.

TABLE 5.3
SELECTED ASPECTS OF CREDIT UNION GROWTH IN SASKATCHEWAN

AT YEAR END

1937-1969

| Year | No. of Credit Unions | No. of Members | Assets in Thousands of Dollars | Loans Made Thousands of Dollars | Average Loan Size in Dollars |
|------|-------------------------|-------------------|--------------------------------------|---------------------------------------|------------------------------------|
| 1937 | 5 | 268 | 2.2 | 2.6 | 55 |
| 1938 | 19 | 1,664 | 20.9 | 36.9 | 48 |
| 1939 | 32 | 2,862 | 67.7 | 117.2 | 65 |
| 1940 | 52 | 4,481 | 130.3 | 224.0 | 72 |
| 1941 | 72 | 6,273 | 189.3 | 295.1 | 81 |
| 1942 | 92 | 9,179 | 312.1 | 435.7 | 85 |
| 1943 | 128 | 14,539 | 797.7 | 821.6 | 127 |
| 1944 | 163 | 20,988 | 2,449.9 | 1,631.9 | 215 |
| 1945 | 172 | 25,550 | 3,718.3 | 2,482.7 | 275 |
| 1946 | 185 | 30,186 | 5,021.0 | 3,612.0 | 303 |
| 1947 | 194 | 34,008 | 6,291.9 | 4,649.1 | 341 |
| 1948 | 217 | 38,895 | 8,344.5 | 6,143.4 | 408 |
| 1949 | 228 | 43,585 | 11,037.9 | 8,038.2 | 454 |
| 1950 | 245 | 48,193 | 12,563.5 | 8,769.6 | 444 |
| 1951 | 253 | 52,759 | 15,279.0 | 8,913.5 | 492 |
| 1952 | 263 | 59,784 | 21,404.5 | 14,617.7 | 663 |
| 1953 | 268 | 68,286 | 28,471.1 | 20,490.3 | 831 |
| 1954 | 279 | 75,854 | 29,467.4 | 17,319.8 | 678 |
| 1955 | 284 | 80,396 | 32,356.1 | 15,621.5 | 597 |
| 1956 | 278 | 86,036 | 38,646.0 | 17,775.8 | 643 |
| 1957 | 275 | 92,981 | 44,825.0 | 20,680.6 | 704 |
| 1958 | 267 | 103,289 | 56,450.2 | 25,739.7 | 717 |
| 1959 | 267 | 117,777 | 71,681.2 | 36,696.6 | 885 |
| 1960 | 272 | 137,012 | 88,778.3 | 55,710.5 | 872 |
| 1961 | 280 | 156,492 | 110,664.3 | 51,284.9 | 927 |
| 1962 | 282 | 171,949 | 141,027.1 | 67,852.4 | 1,033 |
| 1963 | 289 | 191,192 | 167,923.3 | 84,521.3 | 1,125 |
| 1964 | 293 | 212,280 | 208,553.0 | 102,845.2 | 1,252 |
| 1965 | 295 | 236,338 | 257,239.9 | 129,065.9 | 1,378 |
| 1966 | 296 | 259,994 | 293,080.4 | 131,070.9 | 1,384 |
| 1967 | 286 | 283,491 | 353,791.8 | 166,248.9 | 1,590 |
| 1968 | 284 | 302,471 | 387,263.4 | 168,862.1 | 1,467 |
| 1969 | 277 | 310,796 | 394,389.5 | 145,823.8 | 1,309 |

FROM: Annual Reports Department of Co-operation and Co-operative Development Various years.

The data in this table points out that the secular growth trend of credit unions was slow but steady from 1937 to about 1956, increasing fairly rapidly in absolute terms to about 1967 when a gradual leveling in the rate of growth begins. It is in this period of most rapid growth beginning about the late 1950's when services began to expand and brought credit unions into new conflicts, particularly with banks.

Credit union growth, as well as the expansion of services, was shaped by the environment in which credit unions operated. These changes in turn led to position conflict, particularly with the banks. Three major developments - one largely internal to credit unions, one partially external and the other external have been selected to examine this conflict. The developments chosen point out various aspects of the conflict faced by credit unions and their central organizations in Saskatchewan.

Up to this part of the study, an attempt has been made to show that developments in Saskatchewan were part of a continual process of handling conflicts over the control of resources and position. With the origin of credit unions, after the usual credit sources failed, Saskatchewan people worked to resolve the struggle for control of credit resources by developing local user-owned credit sources. With the formation of credit unions and as a result of environmental conditions, a number of events occurred which resolved some of these conflicts but brought others into sharper focus.

The major difficulty in selecting data is that there is no clear demarcation between the conflict over position and/or resources. The needs of research demand at least some attempt at distinction but

these attempts impose a static orientation which is not intended.

With these limitations in mind, the first development - chequing - will be traced as part of the credit union move into "banking" services. The second development will relate to aggregate credit union growth patterns and culminates in the series of events leading to the Canadian Bank Act amendments in 1967. Two other developments - co-operative taxation and bank competition in personal security loans will be examined in conjunction with these major developments.

The matter of credit union chequing or cash transfer system, as was pointed out earlier, was raised by credit union representatives as early as 1939.³¹ Following earlier credit union practice, Saskatchewan credit unions had developed deposit as well as share savings accounts for members. The deposit accounts were a means to obtain cash at the credit union offices.³²

4. THE CONFLICT OVER CHEQUING

The Saskatchewan Co-operative Credit Society, formed in 1941 to handle credit union surplus funds made credit union resources mobile by making loans available to credit unions with heavy loan demands. The Credit Society, by 1944 became involved in chequing by acting as the payer for credit unions so they could draw cheques on the Credit Society. Clearing of such cheques was handled through the Regina Clearing House Association for an annual fee of \$100.00 and one cent charge for each cheque drawn on the Credit Society. This arrangement was similar to that used by banks for their large business customers.³³

In the same year three credit unions developed a voucher transfer system which was a modified form of chequing, restricting the voucher's

use between payor and payee and excluding third party transactions. This voucher system was slowly extended to other credit unions but seemed inadequate and consequently proposals were put forward for credit unions to form regional districts to handle the cheques of each other's members. Chequing required full time experienced staff, had a comparatively high cost per item and required safe keeping facilities for cash which was not always available and therefore was not encouraged by the Department of Co-operation and Co-operative Development or by the Federation.³⁴ The demand for chequing continued nevertheless.

During the latter part of 1946, the Credit Society was informed by the banks that earlier clearing arrangements would be ended. In the future, cheques were to be handled by the banks at greater cost under tariff charges allowed by the Bank Act. Negotiations began and continued into 1947. The negotiations were finally settled to the satisfaction of the Credit Society on essentially the same basis as that which had been in effect earlier.³⁵

In 1955 the Credit Union Act was amended to allow three kinds of cash withdrawals from deposit accounts. The first and second methods were already in use - personal withdrawal at the credit union office and orders from the member to pay money to a second person drawn on the credit union deposit account. The third method was new and would, in effect, allow the use of cheques payable to third or more parties by endorsement. This amendment set the legal stipulations for a credit union to offer this service to its members. It was estimated that 58 credit unions were offering this service in 1956. By actual count, it was offered by 149 credit unions in 1960 and 233 in 1965.³⁷

One factor has been neglected to the present and that is the matter of a name for this new credit union service. Rather than call it a "chequing" service, the banks insisted that credit unions call it "negotiable order" service since under the Bills of Exchange Act only banks can have cheques drawn on them. This name is used, despite the fact that negotiable orders in practice are used in exactly the same way as cheques. Moreover, it is curious to note that trust companies and other financial intermediaries offering this same service are allowed to call it chequing. Maybe interlocking control is the significant factor?

The Credit Society had considered forming its own clearing system by examining the clearing methods used by the caisses populaires in Quebec in April, 1959. Prior to this, in June, 1958, The Canadian Bankers Association presented Canadian credit unions with a paper establishing new ways of handling credit union negotiable orders which, in effect, demanded the implementation of a substantially more costly clearing procedure. It excluded the caisses populaires in Quebec. The new system was to come into effect November 1, 1958. In summary, the proposal imposed an annual fee on credit unions to be paid to the local bank as well as annual clearing house fees plus five cents per item processed. In addition it required credit unions to maintain a current account with local banks (no interest is paid on such accounts) equal to the monthly average of items in transit as well as 10 per cent reserve in excess of this average. Furthermore, on dishonoured negotiable orders credit unions were told to charge fifty cents to their members and remit half of this charge to the bank. The proposal also made it very clear that credit union cheques were not "cheques" but negotiable orders

under the Bills of Exchange Act.³⁹ The potential increase in costs to handle these items was in excess of 100 per cent in all cases and as high as 1400 per cent for one credit union.

A joint committee of the League and Credit Society studied and criticized the proposal, clause by clause. As a result the Directors of both groups prepared a strongly worded resolution to The Canadian Banker's Association criticizing the "unreasonable and exorbitant" costs as well as the imposition of the proposal without prior consultation and recommended negotiations for "a new and realistic schedule of charges" between the two groups.⁴⁰ The Credit Society staff, having studied the Quebec caisses populaires system were still prepared to develop their own clearing system. By uniting credit unions under a Credit Society clearing system, they felt it would be possible to negotiate with individual banks for both local and provincial clearing. The committee pointed out that credit unions had been forced into chequing by the earlier withdrawal of banks as well as their refusal to open branches in bankless communities. Among other objections, it was pointed out that credit unions kept savings and loan funds in the local community contrary to bank practice. There are twenty-two listed objections to this arbitrary action of the banks.⁴¹

Despite the Banker's Association contention that the schedule of fees was being imposed to cover increased costs, the credit unions were never able to get factual data from the banks on such costs. The credit union representatives, in fact, were unable at first to initiate any negotiations with the banks. As a result, the League undertook a campaign of publicity and pressure to force negotiations.⁴² Whether,

as a result of these activities or not, negotiations were eventually started and resolved to the satisfaction of both groups without excessive increases in costs.⁴³ The end result was, in effect, a handling fee for each item without the proposed float balances and annual fees.⁴⁴

The initial proposal of the Canadian Banker's Association made particular note of the point that use of clearing-house facilities was a privilege granted by the General Manager of a particular bank and only on the condition that terms of the proposal be met. The general attitude expressed in the proposal certainly convinced credit union leaders that they were involved in a struggle for a place in the scheme of things. The written comments of the Managing-Director of the League makes this point clear:

'Generally speaking, credit unions have enjoyed growth and along with them, the league has also grown. There is fear in some quarters that the credit union movement may get "Too Big". Steps are being taken to hinder the growth. The Canadian Banker's Association's proposal re clearing privileges are a good indication of a squeeze on credit unions

There was no time in our history of development when the need for unity was greater.⁴⁵

Whether the banks considered their proposal as a conflict over relative position is an unanswered question, but the credit union leadership certainly did. It may, of course, have been possible that the initial proposal by the Banker's Association was a negotiation move, but their refusal to negotiate does not support this possibility. It is equally possible that it was an administrative action which entirely overlooked the determination and strength of credit unions.

The importance of central credit union clearing is borne out by the fact that the Credit Society cleared over 2.7 million items in 1961.⁴⁶ By 1966 when the population of Saskatchewan was 955,344, the Credit Society cleared over 6.3 million items through its Saskatoon and Regina offices.⁴⁷ This means a clearing flow per year equivalent to more than 6 items for every person in Saskatchewan excluding the items cleared locally.

5. THE CONFLICT OVER SAVINGS AND CONSUMER LOANS

The second major area of conflict developed over the amendments to the Bank Act in May, 1967 and led to major changes in credit union structures and functions. It began with the appointment of the Royal Commission on Banking and Finance on October 18, 1961.

However, before examining this development in greater detail, the importance of clearing house privileges to credit unions was highlighted in credit union briefs submitted to the Commission. The joint brief of credit union centrals in Saskatchewan emphasized the importance of central clearing as a means to handle cheques (negotiable orders) for members, particularly in rural areas.⁴⁸ The Canadian Co-operative Credit Society brief representing the financial centrals of Saskatchewan, British Columbia, Manitoba and Ontario stressed the need for a more equitable form of clearing through the Bank of Canada if necessary or the establishment of reasonable clearing rates by the Inspector General of Banks based on actual costs.⁴⁹ The Royal Commission on Banking and Finance (1964) recommended that credit union centrals and other cheque-using intermediaries become members of the Bank of Canada

and that the Bank of Canada handle clearing on shared cost basis.

The other relevant recommendation suggested removing the interest rate ceiling on bank loans. A number of other recommendations pointed to the development of a market conception of financial intermediation where prices (interest rates) would be set by competition within a supply and demand framework.⁵⁰

The revision to the Bank Act in May, 1967 did, in fact, remove the ceiling on bank interest rates. It was interpreted by leaders in the credit unions as making consumer lending more attractive to the banks by raising loan interest rates. The net result of these higher earnings, in their interpretation, was the ability of banks to pay better rates on deposits.⁵¹ In actual fact, the Bank Act amendment to remove the interest rate ceiling on loans was largely a matter of legalizing a process already well developed.

The banks had been using a variety of devices and business practices to exceed the 6 per cent interest-rate ceiling. In late 1966, they began using compensating balances to raise effective interest rates by 1/2 to 1 per cent on their prime interest rate to preferred customers. The practice consisted of requiring the customer to borrow an amount in excess of his needs, use only what he needed but pay interest on the whole.⁵² The portion on deposit depended on the effective prime interest rate they were charging at the time. As an example, a customer might need 1 million dollars in credit but would be required to borrow 1.2 million to gain access to the 1 million but still have to pay interest on the whole amount. Consumer loan rates exceeded the interest rate ceiling through the use of a variety of service charges.

The rise in interest rates had been general throughout all segments of the credit industry beginning in 1965 when the federal monetary policy (tight money) restraining credit and the money supply came into effect.

TABLE 5.4
INTEREST RATES FOR SELECTED PUBLIC & PRIVATE BORROWING
CANADA 1960-1969
AT YEAR END
IN PER CENT

| Year | Government of Canada** | | Gov. Canada Bonds Average Yield | N.H.A. Maximum Mortgage Rate | Canada Savings* Bonds |
|------|----------------------------|----------------------------|--|---------------------------------------|-----------------------------|
| | 3 Months Treasury Bills | 6 Months Treasury Bills | | | |
| 1960 | 3.25 | 3.54 | 5.31 | 6.75 | 4.7 |
| 1961 | 2.99 | 3.14 | 4.93 | 6.50 | 4.6 |
| 1962 | 3.91 | 4.01 | 5.10 | 6.50 | 5.5 |
| 1963 | 3.78 | 3.99 | 5.15 | 6.25 | 5.0 |
| 1964 | 3.82 | 3.96 | 5.03 | 6.25 | 5.0 |
| 1965 | 4.54 | 4.77 | 5.40 | 6.25 | 5.0 |
| 1966 | 4.96 | 5.21 | 5.76 | 7.25 | 5.5 |
| 1967 | 5.95 | 6.13 | 6.54 | 8.25 | 5.5 |
| 1968 | 6.24 | 6.47 | 7.30 | 8.57 | 6.9 |
| 1969 | 7.81 | 7.88 | 8.29 | 9.96 | 8.0 |

SOURCE: Bank of Canada, Statistical Summary Annual Supplement, Various Years (Ottawa, Bank of Canada).

* Not year end but yearly issue rates if held to maturity.

** Set by weekly tender.

Since in practical terms, the borrowing of one individual or group is the saving of another, rising loan interest rates are tied fairly directly to rising interest rates on savings. There is, of course, in the case of loans and savings for financial intermediaries, a spread

(the earnings) between the two rates and a frequent time lag in either up or down adjustment. Such a lag is obvious in Canada Savings Bonds rates. The short term rates (3 and 6 month) treasury bills show rather clearly, however, the consistent rise in interest rates after 1965.

Along with rising interest rates, a gradual change in the relative size of financial intermediaries was taking place beginning after 1951. The credit unions, until about 1963 grew in relative terms at the expense of the other financial intermediaries. One factor which is highly significant particularly in relation to credit unions has already been noted before but is important enough to deserve reiteration. Credit unions depended exclusively on the savings of individuals and a few small associations for their loan capital. Although credit unions in Saskatchewan tended to stress loaning activity, they could never neglect savings since they are the source of funds for loans. If credit unions in Saskatchewan or the rest of Canada for that matter are to continue growing in relation to the rest of the market, they must find alternative sources of capital. This is particularly necessary because of the growing importance of non-discretionary savings such as pension plans which tend to reduce the aggregate amount of individual savings available to all financial intermediaries and therefore also to credit unions.

TABLE 5.5

RELATIVE CONSUMER LOAN AND PUBLIC SAVINGS HOLDINGS IN CANADA BY INSTITUTIONS

AT YEAR END
1951-1969

MILLIONS OF DOLLARS

| YEAR | SAVINGS | | | | | | LOANS | | | | | |
|------|---|---------------|--------|---------------|-----------------|---------------|---|---------------|-------|---------------|------------------|---------------|
| | Credit Unions & Caisses Populaires | % of Total | Banks* | % of Total | All** Others | % of Total | Credit Unions & Caisses Populaires | % of Total | Banks | % of Total | All*** Others | % of Total |
| 1951 | 334 | 4.7 | 4,805 | 67.7 | 1,961 | 27.6 | 76 | 6.4 | 204 | 17.2 | 906 | 76.4 |
| 1952 | 396 | 5.2 | 5,130 | 67.6 | 2,061 | 27.2 | 94 | 5.8 | 244 | 15.0 | 1,285 | 79.2 |
| 1953 | 453 | 5.5 | 5,246 | 64.1 | 2,486 | 30.4 | 129 | 6.5 | 311 | 15.7 | 1,540 | 77.8 |
| 1954 | 511 | 5.4 | 5,842 | 61.4 | 3,162 | 33.2 | 151 | 7.1 | 353 | 16.5 | 1,632 | 76.4 |
| 1955 | 603 | 5.7 | 6,344 | 59.8 | 3,655 | 34.5 | 174 | 6.9 | 443 | 17.6 | 1,900 | 75.5 |
| 1956 | 700 | 6.2 | 6,702 | 59.7 | 3,822 | 34.2 | 226 | 10.8 | 438 | 15.3 | 2,206 | 76.9 |
| 1957 | 787 | 6.7 | 6,911 | 59.1 | 4,001 | 34.1 | 258 | 8.7 | 425 | 14.3 | 2,293 | 77.0 |
| 1958 | 935 | 7.1 | 7,736 | 58.8 | 4,491 | 34.1 | 320 | 9.9 | 559 | 17.2 | 2,369 | 72.9 |
| 1959 | 1,060 | 7.7 | 7,726 | 56.1 | 4,928 | 36.1 | 397 | 10.8 | 725 | 19.6 | 2,569 | 69.6 |
| 1960 | 1,208 | 8.1 | 8,076 | 54.0 | 5,639 | 37.9 | 433 | 10.8 | 863 | 21.5 | 2,724 | 67.8 |
| 1961 | 1,382 | 8.3 | 8,854 | 53.1 | 6,428 | 38.6 | 516 | 12.0 | 1,039 | 24.1 | 2,761 | 64.0 |
| 1962 | 1,521 | 8.3 | 9,253 | 50.6 | 7,499 | 41.4 | 579 | 12.2 | 1,196 | 25.2 | 2,975 | 62.6 |
| 1963 | 1,730 | 8.6 | 9,983 | 49.3 | 8,543 | 42.2 | 691 | 12.9 | 1,446 | 27.0 | 3,210 | 60.0 |
| 1964 | 1,987 | 8.8 | 10,814 | 48.0 | 9,724 | 43.2 | 836 | 13.5 | 1,808 | 29.2 | 3,543 | 57.3 |
| 1965 | 2,275 | 9.1 | 12,171 | 48.5 | 10,664 | 42.5 | 987 | 13.9 | 2,257 | 31.7 | 3,873 | 54.4 |
| 1966 | 2,617 | 9.6 | 13,015 | 47.6 | 11,700 | 42.8 | 937 | 12.3 | 2,474 | 32.5 | 4,199 | 55.2 |
| 1967 | 3,049 | 9.8 | 15,482 | 49.9 | 12,525 | 40.3 | 1,094 | 13.0 | 2,994 | 35.6 | 4,323 | 51.4 |
| 1968 | 3,237 | 9.3 | 18,190 | 52.4 | 13,305 | 38.3 | 1,247 | 13.0 | 3,686 | 38.5 | 4,651 | 48.5 |
| 1969 | 3,663 | 9.8 | 19,056 | 51.1 | 14,554 | 39.0 | 1,401 | 12.9 | 4,171 | 38.5 | 5,274 | 48.6 |

FROM: Bank of Canada, Statistical Summary, various yearly supplements.

* Chartered Banks includes figures for Quebec savings. Chartered Bank data is "Monthly Series".

** Includes trust companies, mortgage companies, gov't. savings institutions and Canada Savings Bonds.

*** Includes sales finance companies, consumer loan companies, life insurance company, consumer loans and all retail establishments consumer credit.

The relative position of the chartered banks in public savings (excluding public demand) deposits declined in relative terms from 67.7 per cent of the total in 1951 to about 51 per cent in 1969. The "other" form of savings institutions replaced a substantial part of this decline, but credit unions in Canada also showed a substantial growth in relative terms, better than doubling their proportion of total savings from 4.7 per cent in 1951 to 9.8 per cent in 1969.

Despite the view of credit union leaders that the amendments to the Bank Act would bring banks into consumer lending because of better returns, it must be noted that banks had made their first move into consumer loans in about 1958. However, their major drive into consumer lending came in about 1961, long before the amendments to the Bank Act in 1967. The Bank Act, however, forced latent conflict into a direct, tangible conflict. This is true particularly in relation to increased competition for savings since by removing the interest rate loan ceiling, bank earnings did improve to push savings interest rates upward. The credit unions, however, also expanded fairly rapidly into consumer lending (their mortgage lending excluded) in relative terms. It was conventional credit sources such as retail lenders which were most affected until very recently.

It would seem that the beginning of tight money in 1965 which reduced the money supply and hence the flow of savings had at least some effect on credit union activities. This is borne out by the fact that credit unions in Saskatchewan in 1966 introduced higher return term deposits. These term deposits grew very rapidly thereafter in relation to share savings so were obviously being used by members.

TABLE 5.6
CREDIT UNION LIABILITIES IN SASKATCHEWAN
1961-1969
IN THOUSANDS OF DOLLARS

| Year | Liabilities | % Change | Shares | % Change | Ordinary Deposits | % Change | Term Deposits | % Change |
|------|-------------|-------------|-----------|-------------|----------------------|-------------|------------------|-------------|
| 1961 | 110,664.3 | | 84,852.2 | | 18,195.6 | | | |
| 1962 | 141,027.1 | +27.4 | 104,035.6 | +22.6 | 22,136.0 | +21.6 | | |
| 1963 | 167,923.3 | +19.1 | 125,179.8 | +20.3 | 25,136.1 | +13.7 | | |
| 1964 | 208,553.0 | +24.2 | 150,750.0 | +20.4 | 29,234.1 | +16.3 | | |
| 1965 | 257,239.9 | +23.3 | 183,316.0 | +21.6 | 40,273.4 | +38.3 | | |
| 1966 | 293,080.4 | +13.9 | 201,267.8 | + 9.8 | 41,123.0 | + 1.6 | 17,440.9 | |
| 1967 | 353,791.8 | +20.7 | 224,479.4 | +11.5 | 47,609.9 | +15.8 | 36,182.4 | +103.9 |
| 1968 | 387,263.4 | + 9.5 | 220,277.2 | - 1.9 | 55,928.3 | +14.9 | 55,066.9 | + 52.2 |
| 1969 | 394,389.5 | + 1.8 | 201,296.5 | - 8.6 | 65,273.3 | +16.7 | 72,889.0 | + 32.4 |

FROM: Glen W. Mellis - Dave C. Hawkes, Annual Review of Economic and Social Conditions in Saskatchewan, 1969 (Prepared for Credit Union Research Committee by the Credit Union Research Council, April, 1970), P. 31, Table 3.1.

As was suggested earlier, the growth of term deposits and the absolute decline in lower paying share savings particularly in 1968 and 1969 does suggest that the Bank Act revision did have at least some effect on credit union savings programs even though the competitive pressure began earlier. In the past year or two other savings instruments have been developed. Special savings deposits, for example, do not give life insurance protection on savings but pay 1/2 per cent more than shares.

The Bank Act amendments in their dramatic suddenness did affect credit union organization. It was, however, just a part of a number of factors but its sudden imposition brought the longer term conflict over resources into prominence in the thinking of credit union leaders.

The review of the conflict over credit union chequing and control of savings despite the selection process, serves to show how, in both cases, conflict was a part of a continuous process. The conflict over credit union chequing developed even before credit unions were formed - when the banks left Saskatchewan. There were two open conflict situations with periods of latency in between. Each conflict brought changes but even the last conflict and its partial resolution has not solved this particular conflict for credit unions are still at the mercy of the Canadian Bankers Association clearing houses.

The need for systematic savings among credit union members was stressed from the very first in a number of ways: either in stressing thrift alone or systematic savings;⁵³ stressing savings and thrift as more important than loans;⁵⁴ or the competition with banks over savings and the resulting need to develop systematic savings among the members.⁵⁵ The credit unions quickly acknowledged the conflict over resources, in particular with the banks. But it was not until the lifting of the loan interest rate ceiling for the banks that this conflict over the control of individual savings became very direct and open.

Credit union leaders have acknowledged the need to pay a reasonable return on savings and to retain savings as the essential source for loans. Once a surplus of funds in excess of short term loan needs was developed credit unions moved into longer term loans. Loan need of members had to be balanced against available savings resources.⁵⁶ In 1946 the credit union representations at the Credit Union Federation annual convention passed a resolution directing staff to set up a system whereby members would pledge to save on a regular basis.⁵⁷

Despite the early credit union emphasis on meeting members' loan needs, the need to have adequate savings resources as loan capital was always present.

In summary, crop yields, prices and economic conditions over the years brought the conflict over savings and loans to the fore with varying intensity. Tight money conditions on a national scale following 1965 raised it again. This fact coupled with an international capital shortage forced interest rates on savings up and intensified competition for savings. The amendments to the Bank Act in 1967 brought the conflict over savings into sharp relief. Credit union reactions in Saskatchewan besides developing new saving's instruments were varied. Additional discussion of some of these reactions will be found in the next chapter.

6. ANOTHER THREAT FROM OUTSIDE

Thompson suggests that organizations are open systems, or in other words, open to influences of the environment and subject to criteria of rationality and therefore needing certainty.⁵⁸ He suggests that certain technologies consist of the "core" of the organization. Experience, as well as predictions of environmental change allows organizations to act as though they had a closed core control system. It is when unanticipated environmental fluctuations occur that organizations must adjust to regain control of at least part of the organizational function.⁵⁹

Credit unions in Saskatchewan jealously guard their local autonomy, yet through province wide organizations have attempted to control certain technical core functions such as loan capital mobility, chequing, as

well as other "bank" services. For long periods of time this control of core functions seemed possible by giving minimum authority to these central credit union organizations.

The developing pressure on credit union savings culminating in the Bank Act amendments brought increased environmental fluctuations. The 1965 annual report of the Credit Union League of Saskatchewan outlined some of these fluctuations:

'From outside we are challenged by the insecurity which emanates from the yet unknown effects of the Royal Commissions (sic) on Taxation and the Royal Commission on Banking and Finance

Another concern over which we have little control is the overall supply of money. We have all heard of the "tight money situation" in the latter part of 1965 All indications now point to a reasonably extended period of short money, and with money as with any other commodity, if there is low supply and high demand, the cost goes up."⁶⁰

In addition the report points out that a number of controversies were developing in the credit union movement. Thus Saskatchewan credit unions, by becoming full service financial intermediaries, were raising questions about the purposes, objects, philosophy and traditions of co-operatives and credit unions. Leaders in Saskatchewan believed these purposes, objects, etc., were just guidelines to be changed in keeping with the needs of members. However, not all people held this view either in Saskatchewan or throughout the movement.⁶¹ The reactions to both the internal and external tensions will be examined more in the next chapter.

The question of co-operative and credit union taxation has been raised many times and dealt with in the Report of the Royal Commission on Co-operatives in 1945. Co-operative organizations in this report

were, according to its recommendations, to pay tax on the same basis as other corporations but with patronage dividends deducted from income thus effectively reducing taxation.⁶² To many corporate groups this seemed a special privilege since they had to pay tax on profits before paying dividends to their shareholders. The co-operative leadership, however, always viewed patronage dividends and refunds as entirely different than corporate profits paid as dividends to shareholders. The patronage principle held that members got a return in proportion to use, while corporate shareholders received a dividend for ownership. The corporate view on the other hand held that co-operatives retained the patronage dividends and thus obtained a very inexpensive source of capital giving them a competitive advantage. Both positions enunciate value positions and thus can be argued endlessly without solution.

Nevertheless the pressure from outside groups has been a concern to co-operatives. A comment by an advocate of the free enterprise system points out the inherent value differences:

"Politicians to the contrary notwithstanding, there is nothing sacrosanct about co hyphen (sic) operation and I suspect it survives and thrives largely because it is able to obtain preferred tax treatment over its competitors. It is interesting to speculate on where the tax money will come from when and if the co-op movement displaces ordinary business forms as we know them, and what will then become of the free enterprise system. In this connection I observed in the Montreal Gazette a week ago Monday an account of the arrival in Canada of four representatives of the central organization of Soviet Russia's consumer co-operatives, on a cross-country tour of inspection of co-operatives in Canada. I was struck by two things. First, they are reported as having been met by the National Secretary of the Co-operative Union of Canada, who will accompany them on their two week tour with an official of the federal

Department of Agriculture. The second thing is that one of them is reported as having said that Russian consumer co-ops, with forty-two million members, do most of the retail business in small towns and rural communities. I wonder if they receive preferred tax treatment and if so where the tax money for fifty megaton bombs comes from!"⁶³

It is interesting to note in relation to this comment that Canadian consumer co-operatives have never handled much more than 4 per cent of total consumer sales in Canada. They have tended to develop for the purpose of making the consumer more effective in the competitive free enterprise system. Co-operatives view patronage dividends and refunds as the means to sell goods at cost to their members without becoming involved in a price cutting war. However, whatever the validity of either position, it is obscured by rhetoric and the debate continues.

The Equitable Income Tax Foundation following the findings of the Royal Commission on Taxation has through local Chambers of Commerce, submitted briefs on the question of the taxation of credit unions. They contend that credit unions should be taxed before paying dividends or interest rebates. As credit unions have pointed out in response, dividends are actually interest paid on savings.⁶⁴ The Carter Commission on Taxation has put the matter of dividends on savings in perspective. They suggest that credit unions would have little difficulty in converting shares to some form of savings, paying a fixed rate of return and thus show these payments as a non-taxable expense. The rebate on interest is given by so few credit unions now as to be insignificant. There seems to be, in other words, little to the Equitable Income Tax Foundation position that credit unions have an income tax advantage.

7. THE GROWTH PATTERN

The descriptive data presented in this chapter is suggestive rather than conclusive. It suggests credit unions developed as alternative sources of short term credit. In support of this view is the fact that many bank branches were closed in Saskatchewan during the decade of the 1930's when credit needs were acute. In addition other sources of short term credit such as retail sources were curtailed because of economic conditions. Credit unions developed very rapidly at this time particularly in numbers thus serving the type of loan needs crucial to the survival of their members as well as offering other financial intermediary services such as chequing. As they grew in size and developed more services to meet their member's needs, they came into direct conflict largely with banks since this was the service need which they were filling.

The fact of conflict is obvious from the data presented in this chapter. The intensity of the conflict varied over various issues as they came into more direct focus or receded into the background. The fact of consensus is also obvious even though it is not specifically noted. The credit unions and co-operatives have not seriously challenged the market conception of distribution and production. Instead they have tended to try to make their members more effective in the market. The consensus with minor exceptions on the value of the market economy is maintained by both groups despite their continuing conflict over the control of resources and positions. The conflict is, in other words, basically over the distribution of resources and positions in the system as it presently exists.

FOOTNOTES

¹Gilles Mercure, Credit Unions and Caisses Populaires (Ottawa, Working paper prepared for the Royal Commission on Banking and Finance, 1962), Pp. 9-20, 22-30.

²Dr. B.N. Arnason, History, Philosophy and Development of the Credit Union Movement in Saskatchewan (Address to the delegates of the 21st annual meeting of the Credit Union League of Saskatchewan, Regina, March 10, 1959), P. 5. Dr. Arnason was one of the founders of credit unions in Saskatchewan in 1937 and earlier and the first Registrar of credit unions.

³Gilles Mercure, Op. Cit., Pp. 9, 24 and 38.

⁴W.A. Mackintosh, et. al., Economic Problems of the Prairie Provinces (Vol. 4 of W.A. Mackintosh & W.L.G. Joerg, Eds., Canadian Frontiers of Settlement, Toronto, MacMillan Co. of Canada Ltd., 1935) Pp. 263, 265.

⁵Dominion of Canada Report of the Superintendent of Insurance, "Vol. II Life Insurance Companies" (Ottawa, Queens Printer) 1928 - P. xxxv; 1929 - xxxvi; 1931 - xxxv; 1933 - xliii; 1935 - lvii; 1937 - xxxviii.

⁶Ibid., 1931 - xxxv; 1935 - lvii.

⁷W.A. Mackintosh, Op. Cit., Pp. 266, 267 & 271.

⁸Ibid., P. 271.

⁹A.B. Jamieson, Chartered Banking in Canada (Toronto, The Ryerson Press, 1953), Pp. 95-96, 228.

¹⁰Ibid., P. 244.

¹¹Muriel Clements, By Their Bootstraps (Toronto, Clarke, Irwin & Co., Ltd., 1965), Pp. 59-60.

¹²W.A. Mackintosh, Op. Cit., P. 271.

¹³Dominion Bureau of Statistics, Canada Year Book 1938 (Ottawa, Queens Printer), Pp. 622-623.

¹⁴Jean Larmour & G.P. Boucher, Co-operative Credit in Saskatchewan (Regina, Government of the Province of Sask., 1951), Pp. 27-28.

¹⁵Dominion Bureau of Statistics, The Canada Year Book (Ottawa, Queens Printer), 1938 - Pp. 622-623; 1941 - Pp. 504-505; 1942 - P. 537.

¹⁶M.C. Urquhart and K.A.H. Buckley (Eds.), Historical Statistics of Canada (Toronto, The MacMillan Co. of Canada Ltd., 1965), P. 246.

¹⁷Dominion Bureau of Statistics, The Canada Year Book 1942 (Ottawa, Queens Printer), P. 824.

¹⁸First Annual Report of the Department of Co-operation and Co-operative Development of the Province of Saskatchewan for the Twelve Months ended April 30, 1945 (Regina, Kings Printer, 1946), P. 30.

¹⁹Department of Co-operation and Co-operative Development, "Annual Report of Saskatchewan Credit Unions 1948", Fifth Annual Report of the Department of Co-operation and Co-operative Development of the Province of Saskatchewan for the Twelve Months ended March 31, 1949 (Regina, Gov't. of Prov. of Sask. 1949), P. 18.

²⁰Short term credit generally refers to credit with terms of three years or less. The use of the term varies from institution to institution.

²¹"Annual Report of Saskatchewan Credit Unions", Op. Cit., 1945 - P. 73; 1950 - P. 21.

²²Ibid., 1946, P. 68.

²³Jean Larmour & G.P. Boucher, Op. Cit., Pp. 21, 25.

²⁴Ibid., P. 29.

²⁵Minutes of The Second Annual Meeting of the Credit Union Federation of Saskatchewan, Saskatoon, June 24, 1940, P. 9.

²⁶Muriel Clements, Op. Cit., Pp. 72, 75, 78, 93.

²⁷First Annual Report Department of Co-operation and Co-operative Development, Op. Cit., Pp. 66, 69, 75. SEE ALSO: Fourth Annual Meeting Credit Union Federation of Saskatchewan, Regina, June 24, 1942, P. 2 for effects of wartime restrictions and improved economic conditions on urban loans.

²⁸Minutes of Second Annual Meeting Credit Union Federation of Saskatchewan, Op. Cit., Pp. 10-11.

²⁹Minutes of The Third Annual Meeting of the Credit Union Federation of Saskatchewan, Regina, June 25, 1941, Pp. 8-9.

³⁰Department of Co-operation and Co-operative Development estimates. First Annual Report 1945, P. 75. Credit Union News Briefs, May 29, 1970, P. 3.

³¹Minutes of The Second Annual Meeting Credit Union Federation of Saskatchewan, Op. Cit., P. 10. AND Minutes of The Third Annual Meeting Credit Union Federation of Saskatchewan, Op. Cit., Pp. 8-9.

³²Minutes of The Fourth Annual Meeting Credit Union Federation of Saskatchewan, Regina, June 24, 1942, P. 2.

³³Fourth Annual Report 1944 Saskatchewan Co-operative Credit Society, Regina, P. 3. AND Sixth Annual Report 1946 Saskatchewan Co-operative Credit Society, Regina, Pp. 2-3.

³⁴Directors Report to the Credit Union Federation of Saskatchewan Sixth Annual Meeting, Regina, July 5, 1944, P. 5.

³⁵Sixth and Seventh Annual Report 1946 and 1947 Saskatchewan Co-operative Credit Society.

³⁶Eleventh Annual Report Department of Co-operation and Co-operative Development year ending 1964, Pp. 12-13 (C.U.)

³⁷Direct contact with the Research Department of The Department of Co-operation and Co-operative Development, Aug. 20, 1970.

³⁸"Central Clearing - An Important Factor in Growth of Credit Union Services", Saskatchewan Co-operative Credit Society Limited, Finance News Letter, Vol. I, No. 2, Oct. 1962.

³⁹Canadian Bankers Association, Clearing Privileges Credit Unions (Including Caisses Populaires Outside the Province of Quebec), undated document, 5 pages. SEE ALSO: "Banks Put Squeeze on Credit Unions", The Credit Union Way, Vol. II, No. 8, August, 1958.

⁴⁰"Resolution" in Joint Meeting Proceedings The Credit Union League of Saskatchewan and Saskatchewan Co-operative Credit Society, Regina, Aug. 15, 1958.

⁴¹Ibid., Pp. 4-6. Clearing System in The Credit Union Way, Vol. II, No. 8, Op. Cit., P. 3. SEE ALSO: Les Tendler, 'Credit Society Studies "Caisses Populaires" Clearing System' in Credit Union Way, Op. Cit., P. 3.

⁴²"Bankers' Proposal for Credit Unions", in The Credit Union Way, Vol. II, No. 10, Oct. 1958, P. 6.

⁴³B. Johnson, Saskatchewan Co-operative Credit Society News and Notes" in The Credit Union Way, Vol. II, No. 12, Dec., 1958, P. 6.

⁴⁴Schedule "B" Clearing Procedures Operating Method, undated procedures credit union paper.

⁴⁵Percy Avram, "Editorial: The Need for Unity" in The Credit Union Way, Vol. II, No. 9, Sept., 1958, P. 2.

⁴⁶"Central Clearing - An Important Factor in the Growth of Credit Union Services", Op. Cit.

⁴⁷Saskatchewan Co-operative Credit Society, 26th Annual Report 1966, Saskatoon, May 7, 1967, P. 8.

⁴⁸To The Royal Commission on Banking and Finance A Brief Presented by the Credit Union League of Saskatchewan and Saskatchewan Co-operative Credit Society Limited and Co-operative Trust Company Limited, Regina, 1962, P. 23, Sect. 54-56.

⁴⁹Royal Commission on Banking and Finance Brief Submitted by Canadian Co-operative Credit Society, 1962, Pp. 30, 31, Sections 75-78.

⁵⁰1964 - Report of the Royal Commission on Banking and Finance, (Ottawa, Queens Printer, 1965), Pp. 393, 394, 361, 364-370.

⁵¹Directors Report 1966 Credit Union League of Saskatchewan, Saskatoon, March 6, 1967, Pp. 9-10. SEE ALSO: John Rolfe, "Bank Gains May be 10% For Year", The Globe and Mail Report on Business, Toronto, Aug. 19, 1970, P. 1.

⁵²Saskatchewan Co-operative Credit Society Limited, 27th Annual Report, 1967, Regina, April 2, 1968, P. 3.

⁵³Minutes of First and Second Annual Meeting Credit Union Federation of Saskatchewan, 1939 & 1940, Op. Cit.

⁵⁴"Our Functions" in The Credit Union Way, Vol. 1, No. 1, Oct., 1946.

⁵⁵"A Task" in The Credit Union Way, Vol. 1, No. 2, Nov.-Dec., 1946.
AND "Business" in The Credit Union Way, Vol. 1, No. 7, July-Aug., 1947
AND "Shareholding" in The Credit Union Way, Vol. 1, No. 8, Sept.-Oct., 1947.
AND "Systematic Savings" in The Credit Union Way, Vol. 1, No. 11, Mar., 1948.
ALSO The Credit Union Way, Vol. 4, No. 3, Mar., 1951, & Vol. 4, No. 4, April, 1951.

⁵⁶Minutes of The Credit Union Federation of Saskatchewan Annual Convention, Regina, June 24, 1942, Pp. 2-3.

⁵⁷Minutes of The Credit Union Federation of Saskatchewan Annual Convention, Regina, June 24, 1946, P. 7.

⁵⁸James D. Thompson, Organizations in Action, (New York, McGraw-Hill Book Co., 1967), P. 10.

⁵⁹Ibid., Pp. 19-23.

⁶⁰Director's Report 1965: Credit Union League of Saskatchewan, Saskatoon, Feb. 23, 24, 1966, P. 8.

⁶¹Ibid., P. 8.

⁶²Report of The Royal Commission on Co-operatives, (Ottawa, Kings Printer, 1945), Pp. 44-45.

⁶³"Co-operative Tax Conference" Fifteenth Tax Conference, 1961. Speaker: Haxen Hansard, Q.C., Howard, Cate & Co., Montreal in R. Craig McIvor, Recent Growth in Canadian Co-operatives, (Toronto, Canadian Tax Foundation, 1962), Pp. 9-10.

⁶⁴"Moose Jaw Credit Union Confronts Local Chamber of Commerce About E.I.T.F. Brief" in The Credit Union Way, Vol. 22, No. 6, June, 1969, P. 10.

CHAPTER VI

SASKATCHEWAN CREDIT UNIONS RE-ORGANIZE

The energies of credit union leaders and members in Saskatchewan in early years were largely directed at developing and extending credit union services to people throughout the province. Growth in absolute size, although steady, was comparatively slow at first. It was not until the mid-1950's that credit unions in Saskatchewan attained a substantial size. Nevertheless, many of the factors which led to their development continued as underlying sources of conflict. It was only when credit unions reached a substantial size that these conflicts became manifest again.

It was implied in the last chapter that the process of growth resulting from actions to resolve the struggle for control of credit resources brought these conflicts into the open again. In other words, had the credit unions not become successful in developing credit and savings sources to meet rural problems, there would have been no basis for further conflict. This view is derived from a domain assumption held by the writer. The assumption is:

Order is essential to the functioning of a social organization leading to some form of hierarchical structure in positions controlling resources. This in turn, leads to conflicts between groups and individuals to readjust the control over resources and positions.

The equilibrium view of society on the other hand, when combined with a holistic systems perspective suggests that adjustments in the structure tend toward total re-organization of the whole. This discounts

to a considerable extent the relative adjustment among parts of the whole without necessarily implying destruction or total re-adjustment of the whole.¹ The conflict between financial intermediaries for the control of resources led to conflicts over relative position and in turn led to internal re-adjustments both for the banks and credit unions but not necessarily of the whole system. Bank re-adjustments include the recent emphasis on personal, individual service de-emphasizing their earlier predominantly commercial interests. These changes are clearly documented by present bank advertising practices but are not included as part of this study.

The credit unions, too, were in a process of constant re-adjustment. A substantial part of their development was in response to conflict over resources or position with private credit granting agencies. This is particularly discernible in the latter stages of development. These processes will now be examined.

1. CREDIT UNION RE-STRUCTURING

Credit unions in Saskatchewan prior to 1966 were organized into twelve geographic districts each containing varying numbers of credit unions and responsible for electing a director to the Board of Directors of the Credit Union League of Saskatchewan. The local Director, as well as staff from the League, Credit Society, Co-operative Trust and the Department of Co-operation and Co-operative Development attended these meetings to make presentations, answer questions and carry out discussion. Before going into the results of events at these and other meetings after 1965, the study perspective will be briefly restated.

As was stated earlier, conflicts over values from the perspective adopted in this study are the rationalizations or justifications adopted by a particular social organization or group to explain the means whereby conflict over resources and/or positions is handled. Co-operative leaders have referred to their operating principles and ideals as co-operative philosophy. This philosophy applies generally to their own internal operating principles and practices. Implicit in the use of ideology is the idea that views expressed by co-operative leaders and members are a part of the broader societal values extending beyond co-operative operations and procedures.

Earlier there was a brief discussion of the role of utopian thought as idealism in credit union and co-operative development. The efforts of co-operatives to move beyond their conventional areas of operation and development into such areas as student co-operative residences and co-operative housing to resolve housing problems² for students and other Saskatchewan residents underlies their utopian form of thought and the ideology which sees co-operation as a potential solution to social problems by stabilizing rather than reforming or revolutionizing society.

There is a tendency for ideological thought to emphasize stability. Ideology is used here in the same way that it is used by Mannheim. He suggests ideology is a condition in which the collective unconsciousness of certain groups hide the real conditions of society and tend to stabilize it.³ This study will not delve into the conceptual jungle of collective consciousness or unconsciousness but focus instead on the stabilizing influence of ideology.

In 1963 the Board of Directors of the Credit Union League, acting under the directions of an earlier League convention, appointed a Planning Committee, the role of which was seen as advisory in nature. Its function was to look at certain broad questions directed to it by the Board of Directors but to leave implementation of programs to staff.⁴ In the following year the planning committee carried out a study tour of Ontario and Quebec credit union operations, and set about re-defining the purposes and objectives of credit unions as well as studying term deposits. These areas of activity will take on increasing significance in this study. The major item of significance with respect to re-defining purpose was the Committee's view that credit unions must adapt their activities to the current needs of members,⁵ presumably in order to retain stability. In the following year they recommended ways of improving credit union service through term deposits, management training programs, better hours of service, and the formation of a research council.⁶ In 1966 the planning committee was instrumental in arranging for a management consultant firm to undertake a survey of credit unions and their central organizations. The committee spent a major part of its time examining credit union branch and regional development.⁷ This committee acted not only as a barometer of current concerns but also in many cases as a catalyst for action. Its efforts, although only indirectly related to action, will be traced in the events which follow.

2. MERGER OF CREDIT UNION CENTRAL ORGANIZATIONS

At the district meetings of the League taking place in October, 1966,

153 credit unions out of a total of 290 were represented at the twelve meetings. The League, Credit Society, Co-operative Trust and Department of Co-operation all presented papers covering their respective histories, development, services and relationships to each other. The League and Credit Society presentations speculated on future development needs raising such matters as regional credit union development as well as the need for united effort. Following this panel presentation, discussion was opened to the full meeting. At four of the twelve meetings, those involved raised the issue of duplication of service and competition between the Credit Society and Co-operative Trust. As a result of these discussions a number of suggestions were made for merger of the credit union central organizations. The suggestions from the four of the twelve meetings were:

(a) Merge or unite the Credit Society and Co-operative Trust -
3 meetings

(b) Merge League, Credit Society and Co-operative Trust -
2 meetings

(c) Form a national Co-operative Bank - 1 meeting⁸

One meeting raised a number of suggestions.

The Planning Committee, in June of 1966, recommended that a management consultant firm be engaged by the League and Credit Society jointly to give guidance to the Planning Committee to aid in setting the future direction of development for credit unions in Saskatchewan.⁹ This recommendation was discussed by the Board of Directors of the Credit Union League in the same month. The meeting passed a motion recommending a joint meeting of League and Credit Society Boards of Directors in

September to hear a proposal from the Management Consultant firm.¹⁰

The management consultants were subsequently engaged to define the roles, functions and appropriate operating structures of the League and Credit Society in relation to the future growth of Saskatchewan credit unions. The Research Council, which had been formed in June, 1966 was assigned to work with the consulting firm on a part-time basis. The report of the management consultants was completed and submitted in September, 1967. Their major recommendation was merger or amalgamation of the League and Credit Society into one viable, dynamic credit union organization to coordinate policies and make use of their combined resources to direct credit union development in a changing social and economic environment.¹¹

During the series of meetings with the consultant firm but prior to the submission of their final report, they were asked to consider the possibility of including the Co-operative Trust Company in the proposed merger. The board and management of Co-operative Trust, for a variety of reasons declined this proposal, partly since they were applying for a national trust company charter. They received their national charter in December 1967.

A summary of the management consultants report was made and presented to the annual meetings of the League and Credit Society on April 1 and 2, 1968. Due to the urbanization trends, increasing competition and complexity in financial intermediation as well as the developing trend for savings to move from voluntary to non-voluntary savings patterns in pension plans and other welfare programs, a series of changes were held to be necessary. They included:

(a) The need to develop highly trained management and financial personnel to handle the increasing size and complexity of credit union operations.

(b) The need to develop credit unions in ten potentially major trading centers.

(c) The need for new educational programs for elected officials and members to keep abreast of essential needs and changes.

(d) The need to coordinate activities between Co-operative Trust and the Credit Society as well as between Co-operative Trust and credit unions to avoid excessive internal competition.

(e) The need to standardize credit union services.

The report held that these changes could best be undertaken by a strong, single, coordinated central organization utilizing the resources of both organizations under a common policy and administrative structure. The report concluded by offering a resolution for the approval of the annual meeting to authorize more coordinated effort between the two Boards while continuing the examination of operational and policy problems relating to merger.¹²

The resolution was passed along with the suggestion that all provincial Leagues and Credit Societies merge into single provincial units and then into one strong national organization.

Later in the annual meeting a resolution was presented by one of the larger credit unions to solve the problems of competition and standardization --- all credit unions should become centralized as branches of the Credit Society. The motion was amended by referring it to the Planning Committee for study and a report at a future meeting. There was some expression of the need for hurry.¹³

3. CREDIT UNION CENTRALIZATION

Early in June, 1968 the writer, as a staff member of the Credit Union Research Council, became directly involved in the merger and centralization studies. The Research Council was asked to give full priority to these studies. The specified goal was to develop an electoral control structure suitable to both merger and centralization by centralizing management responsibility and authority while decentralizing the member or democratic control structure.

As a prelude to this work, a series of unstructured, representative interviews with credit union directors and management were carried out throughout the province. The criteria of representativeness (non-random) was to choose credit union directors and management considered to be both for and against centralization. The interviews were intended to solicit views expressing support or opposition to centralization, the needs of the member control structure, the operational and administrative functions of the central management and the reasons for support or opposition to centralization.

No effort will be made to generalize from these interviews, but certain aspects raised in the interviews foreshadow later conflicts.

Interviews were conducted with 33 people from 13 credit unions throughout the province. They were almost equally divided between management and elected officials with 16 holding local management positions and 17 elected officials. Of those interviewed, 5 held elected offices on the Boards of the League and Credit Society.

The responses are outlined below.

- (a) Supporting centralization: management - 11 with 4 stating some reservations.
- : board - 11 with 1 showing some reservations.

Opposing centralization: management - 5 with 3 indicating a need for some operational integration.
: board - 6 with 4 suggesting a future need to centralize.

(b) Centralization it was held would improve services by: standardizing services, procedures, policies and promotion: better internal operational control and coordination; better use of staff through transfers, training and promotion, etc; more specialization and increased effectiveness; reduced costs through bulk purchase; full scale service in all credit unions; and better use of available capital resources by coordinating the flow of surplus funds. Supporters of centralization almost always offered at least two advantages of centralization, but even those opposed felt the need for greater standardization and coordination.

(c) No matter how strongly an individual supported centralization, some degree of local autonomy was held to be necessary. The old fears of outside domination are raised by such comments as: will become just like a bank; head office too far away; loss of local identity and pride; loss of development stimulus from local diversity; local money leaving the community; and the loss of ability to check central power.

(d) Three spontaneous but relevant issues were raised with sufficient frequency to require summarizing statements.

(i) Regional credit union development was offered as an alternative to centralization by one third of the respondents.

(ii) One quarter of the respondents felt a need for a means of continuing the expression of opposing and diverse points of view to stimulate change and development.

(iii) Just over one third of the respondents expressed a concern about member participation and control in a large, complex, administratively distant organization.¹⁴

These interviews raised issues which had continuing significance in the discussions, studies and development of both merger and centralization. Of particular significance is the local autonomy issue set over against the need to rationalization operations through the economies of scale which could result from centralization.

Following the 1968 annual meetings of the League and Credit Society, the two Boards began operating jointly in effect as a single board to achieve greater coordination in relation to the merger. The responsibilities of the Planning Committee were taken over by the Executive Committee of the joint board. The committee consisted of six board members, three from each organization and had the responsibility of steering the planning, study and development of both the merger and centralization proposals.¹⁵

In the meetings of the Executive Committee beginning in May, 1968 merger was considered the first step in a program of rational development. Since considerable study and discussion on merger had already taken place, the Committee tended to concentrate its study resources on centralization.

Regional credit union development had been discussed, studied and attempted on a formal basis in two areas some time earlier. One major obstacle to regional credit union development on a planned basis was the substantial one of local community pride. Smaller centers, which had been declining for nearly a decade because they were losing

their trade to a larger more diversified trading center, were not prepared to be absorbed by a larger center. On the other hand, where credit union operations seemed in difficulty due to the loss of local trade, amalgamation with a larger credit union on an individual basis was preferable to total decline. It was an entirely different situation if such a move was planned before it seemed absolutely necessary.

The credit unions centering around the larger trading center of Assiniboia, in the south of the province, had begun examining regional development as early as 1967. In 1969 the writer was involved in a series of meetings in this same area to again raise the matter of regional credit union development. Some of the smaller credit unions in surrounding smaller communities were losing savings and were having difficulty meeting loan needs. The substantial resources of Assiniboia Credit Union seemed to offer one solution to this problem. Nevertheless the majority of smaller credit unions present at the meeting preferred the more geographically distant solution of centralization to the local solution of regionalization.

For reasons such as these, the Committee had rejected regionalization as a solution to credit union problems. With merger seen as an interim step well on the way to being accomplished, the Research Council was asked to draw up the control structure, responsibilities and authorities of local, district and central levels of a centralized organization. The objective of the paper was:

"To structure an organization that will best serve the needs of the individual members in keeping with the basic concepts of the credit union within the current social and economic environment."16

A number of other criteria for the development of a centralized structure were also set out by the Committee. Paraphrased, these other criteria included development of at least 9 districts each to achieve electoral representation on the basis of population, in this case credit union membership. Each district was to be represented by one director but in addition there were to be a number of directors at large elected at the annual meeting. The key criteria mentioned earlier was that centralization emphasize operational integration and control for each credit union while decentralizing democratic control. Credit unions not joining the centralized structure were to continue sharing in the control of the League and Credit Society or the organization resulting from their merger.

A series of papers were prepared by the Research Council and presented to the joint Board of Directors. Each paper was modified to include points raised at these meetings. On the basis of representation by population, the delegates in each district might represent the members of up to 8 credit unions. Two of the larger urban credit unions were represented by 5 or 6 delegates. The old representation system had been 2 delegates per credit union, no matter what the size of membership. Each district, depending on its membership had 5 to 10 delegates who in turn were responsible to elect the district director and take part in the election of the directors-at-large at the annual meeting. They, of course, had additional responsibilities in setting policy.

The Credit Society, besides its 289 credit unions and related organization members had 364 corporate co-operative members including

consumer co-operatives, machinery co-operatives, livestock feeding co-operatives, co-operative farms, community halls as well as the large centralized co-operatives such as the Wheat Pool, Co-operative Insurance Services, Co-operative Trust, etc. This group of co-operative members had to have representation in the delegate control structure. Since in most cases their relationship to the Credit Society was as a source of loans and since they had no relationship to the League, they were given 20 voting delegates in relation to 80 for the credit union corporate members. The interlocking nature of many of these directorships was taken into account in setting this number.

The delegate control structure for centralization was to be reworked in separate form with necessary modifications to suit the merger. Each proposal was to be presented separately at the League district meetings in October, 1968. The centralization study was presented only for the purpose of discussion and study. The merger control structure, although subject to modification arising out of discussions and suggestions at the district meetings, contained a resolution which concluded with:

"Therefore be it resolved; that the delegates to this District Meeting recommend to the Board of Directors of the Saskatchewan Co-operative Credit Society Limited and Credit Union League of Saskatchewan that the necessary Bylaw amendments to achieve amalgamation be presented to the 1969 Annual Meetings of both organizations."¹⁷

The District Meetings which took place between October 15 and October 30, 1968 throughout various centers in the province, revealed considerable confusion between the two presentations since both had the identical member control structures with major differences only in

the operational control structure for the centralized study.

The merger resolution outlined earlier was approved with substantial majorities at 11 of the 12 district meetings. The first of the series of district meetings did not vote on it at all since they expressed concern about the confusion between merger and centralization and were not prepared to do any more at that meeting than discuss the issue involved. Out of 10 meetings where the vote was counted those opposed to merger numbered 12 out of a potential of 251 voting delegates.¹⁸

Four issues rose out of the centralization presentation. The major one related to the potential loss of local autonomy. The second issue was closely related since it dealt with the ability to choose voluntary participation in the centralized unit. The remaining issues dealt with the possibility of potential management domination in a centralized organization and the problem of urbanization. At all except two of the meetings, representatives expressed the view in one form or another that the individual credit union members needs could best be served by some unified, coherent financial system. Such a system would more effectively meet competition by standardizing services and operations, assisting the smaller, less efficient credit unions and make better use of available resources through their greater provincial mobility. However, opposing this felt need for greater unity and coordination were the issues outlined earlier - local autonomy and control.

The matter of local autonomy was raised in many ways. The comments of participants expressed the overriding concern that centralization would result in the loss of local responsibilities and autonomy

characteristics. In other words, centralization could lead to a loss of local responsiveness as well as sharply diminish local control resulting in decisions which could be detrimental to the local unit and its members.

The issue of voluntary participation was closely related to this concern. Participants expressed two major concerns. First, whether participation would be truly voluntary without central pressure and second, whether credit unions could, after trying centralization, choose to opt out of it. These aspects of voluntary participation express the relationship between independence and autonomy on one hand and central authority on the other hand.

With the increasing size and complexity of a centralized credit union, the participants felt that the need for highly skilled, knowledgeable and nearly professional staff would place control beyond the part-time volunteer elected officials. This would, in turn, lead to even sharper separation between administrative staff and membership rank and file since they would be one step further from the administration than the elected officials.

In the final issue, it was held that the declining rural credit unions would become a burden to the industrial and associational credit unions after centralization. The somewhat parochial view expressed again reflects the local autonomy issue particularly in light of the tendency for credit union representatives to consider themselves part of a movement. It is, however, a serious issue since competition is so strong for savings that a reduction in interest rates of 1/2 per cent could result in the substantial loss of savings. A drop in rates

of this magnitude or better would be wholly realistic if the declining rural units had to be subsidized.

From most meetings, there were suggestions for further study. Suggestions included setting out the advantages and disadvantages of centralization as well as the specific responsibilities for each level of a centralized structure. As a consequence of their directions and the earlier annual meeting resolution directing study of centralization, the Joint Board felt it best merely to report to the annual meetings on events up to the meeting date as well as make suggestions for further study. This delay in further consideration was also held desirable in view of possible confusion with the merger. The report on centralization recommended to the annual meeting extensive research on credit union member attitudes and feelings toward structures and service.¹⁹ This report was adopted by the annual meeting.²⁰

The merger was approved at the same annual meeting by a number of resolutions dealing with specific aspects of the merger. The resolution authorizing the merger was the first and major motion. It was carried by more than a 3/4 majority. The remaining related resolutions dealt with housekeeping matters to keep the organization going until the new democratic control structure became operational and to make the necessary bylaw changes to handle the legal implications of merger.²¹

4. LOCAL VERSUS CENTRAL CONTROL

In the period after the annual meetings of the League and Credit Society in early April, 1969, a series of events occurred which emphasized the problem of credit union control of resources. Economic

conditions in Saskatchewan were seriously affected by problems in agriculture. The world surplus in wheat reduced wheat sales drastically and as a result caused an equally drastic reduction in available cash. Thus total retail sales in Saskatchewan had declined by 6.2 per cent for the period January to March, 1969 over the same period the preceding year. The Canadian figures on the other hand for the same period showed a nearly equivalent increase. Wheat deliveries to grain elevators from January 1 to March 19, 1969 had decreased by 28.8 per cent over the same period in 1968. Machinery sales and repairs in Saskatchewan declined by 12.5 per cent in the period January to February, 1969 in comparison to the same period in 1968 while the comparable reduction in Canadian sales was 3.1 per cent for the same period.²²

For credit unions, the result of this economic decline was a decrease in cash inflows. Loan repayments, savings deposits as well as demand deposits were drastically reduced. The ratio of cash to credit union assets also declined. This meant a reduction in the resources available for loans as well as for cash withdrawals. The following two tables summarize these developments.

TABLE 6.1
CASH INFLOWS IN SAVINGS AND DEPOSITS
ALL SASKATCHEWAN CREDIT UNIONS
FIRST QUARTER
1966-1969

| Type of Inflow | Percent Change From Quarter to Quarter | | | |
|--|--|------------------------|----------------------|----------------------|
| | Jan.1-Mar.31 1966 | Jan.1-Mar.31 1967 = | Jan.1-Mar.31 1968 | Jan.1-Mar.31 1969 |
| Savings* | + 14.4 | + 15.1 | + 6.0 | + 3.0 |
| Deposits** | + 21.4 | + 37.2 | + 2.8 | + 7.7 |
| Savings deposited by quarter in millions of dollars | 29.5 | 32.6 | 15.3 | 8.3 |

FROM: Credit Union Alert, No. 3, June 2, 1969.

* includes shares, term deposits and net endowment shares.

** demand and special deposits.

TABLE 6.2
CASH TO ASSET RATIOS FOR ALL SASKATCHEWAN CREDIT UNIONS
AT MARCH 31
1966-1969
IN PER CENT

| | 1966 | 1967 | 1968 | 1969 |
|---------------------|------|------|------|------|
| Cash to asset ratio | 8.4 | 10.3 | 5.6 | 5.7 |

FROM: Credit Union Alert, No. 3, June 2, 1969.

The preceding tables show graphically the decline in cash assets available for loan needs. Of course, loan payments brought in some cash but even here there were problems of sufficient magnitude to lead to two special meetings for all Saskatchewan credit unions on the topic of liquidity. The meeting for the southern part of the province took place in Moose Jaw on June 18, 1969 and the northern part in Saskatoon on June 19, 1969.

The meetings were started in each case by introductory comments of Professor Fred Anderson of the Economics Department, University of Saskatchewan, Regina Campus. He suggested that the liquidity squeeze of the time was a passing phase but of greater significance to credit unions was the reduced need for voluntary savings because of such things as national pension plans, medicare, etc. Other people dealt with better methods of handling liquidity. Each meeting was divided into three groups to discuss liquidity in relation to the member, the credit union and the Credit Society and Co-operative Trust. The groups later reported to the meeting suggesting steps to better pool credit union resources, reduce rate variations and internal competition as well as means to bring in more capital. The Moose Jaw meeting suggested a need to move toward some form of centralization.²³

Basically these meetings reiterated a problem facing credit unions at this given time but which was developing since 1965 and 1966 as was shown earlier. With the severe economic conditions, these problems dealing with resource control became intensified and more obvious. The disparities between credit unions seemed to make some unified action imperative. Some credit unions had excess funds with no loan demands

and others had to stop lending completely due to a shortage of liquidity while others had to curtail lending. Credit unions, only one half hour driving distance apart had substantial savings interest rate differentials on term deposits. In 1967 dividends on share savings varied from 3 to 5 per cent throughout the province. Yet credit unions were loosing large savings deposits to chartered banks for 1/4 per cent higher interest. In one case the Credit Society lost nearly one million dollars in credit union surplus funds because of 1/4 per cent higher interest from a bank. Faced with internal competition and an increasing need for capital to make loans, it seemed imperative to develop a coherent, unified credit union policy.²⁴

5. CREDIT UNION MEMBER ATTITUDES

In accordance with the directions of the annual meeting, the Credit Union Research Council in the summer of 1969 undertook an extensive survey of credit union members throughout the province to establish their needs and views on future credit union development. This survey was a part of the continuing study of centralization. Other related studies included an examination of the past, present and projected future development of credit unions in Saskatchewan to be carried out by the Research Council. The Economics Department of the University of Saskatchewan, Regina Campus was commissioned to undertake three studies dealing with past, present and projected trends in the demographic development of Saskatchewan, as well as for agriculture and other industry in the province. The latter four studies are still in progress.

Since portions of the member survey will be used in this study, a

brief description of the method of the study follows. The province was divided into seven geographic regions centering around major trading centers in the province: (a) Weyburn; (b) Regina; (c) Swift Current; (d) Yorkton; (e) Saskatoon; (f) Prince Albert; and (g) North Battleford. The credit unions in each region were stratified according to six assets categories and four bonds of association - employee; parochial; rural; and urban-rural. The credit unions were assigned numbers in numerical order and 95 out of the 278 credit unions were selected randomly out of the stratified groupings as the points in which to carry out interviews. Interviews were attempted with 1,793 members in these 95 credit unions. There were 1,316 completed interviews or 73.4 per cent of the total. Refusals numbered 139 or 7.8 per cent while 332 members could not be interviewed for a variety of reasons and 6 interviews were only partially completed.

The high number of incomplete interviews resulted in large measure from the fact that there is no master list of credit union members and the random selection of members had to be done locally. Thus it was not possible to make an initial contact through the mails because of time and cost factors. In addition many of the randomly selected members were located in rural areas. Efforts were made to interview rural members on a route basis and thus with a maximum of two calls could not always be contacted.

Mail contact from the local credit union would no doubt have reduced both refusals and lost contacts, but it would have required two calls to each credit union, first to select the sample as the basis for mail contact to be followed by a second trip for interviews. The

extra time and cost involved as well as the possibility of considerable lapse of time between the letter and interview did not seem to make such a procedure useful.²⁵ Earlier experience with advance mail notice had not been substantially more effective at reducing the "unable to locate" or "refusals" categories despite a working rule of five attempts to locate each interviewee.²⁶

The items taken from the survey schedule are again governed by selective processes shaped by the theoretical perspective. Earlier it was stated that as early as 1938 there was considerable effort by credit unions to offer "banking" services such as chequing to meet member needs when bank branches closed. It has also been pointed out that credit unions were a means for Saskatchewan people to take part in the struggle for control of savings and loan resources. A resurgence of this struggle occurred, beginning about 1965 particularly in relation to competition over the control of savings. A variety of structural changes were tried and in some cases implemented to handle this competition. Merger did take place and centralization was proposed and studied. However, both these proffered solutions again raised the historical conflict of local versus more distant metropolitan control of resources. In this case it was confined to the geographic location of Saskatchewan instead of to Canada.

The interview schedule was not developed to examine this local (hinterland) - metropolitan conflict over resource control, however the service versus local emphasis did become indirectly obvious in a number of questions. It is the questions dealing with such aspects of member attitude which will be utilized in this study.

The first two questions to be utilized are quoted in full below with their survey schedule sequence numbers.

34. From your experience are there services in other credit unions or other financial institutions which you feel your credit union should offer?

Yes _____ No _____

35. If "yes" ask: What are they?

In examining the responses to these two questions it must be borne in mind that most of the suggested service needs were already available in other credit unions. The autonomous nature of credit unions along with the great variation in size makes the range of services available in any given credit union highly variable. Second, the scoring technique was developed to take account of as many response variations as possible. However, the detailed response categories were substantially reduced in keeping with the purpose of this study.

There were 324 members who felt credit unions should offer additional services while 18 did not answer, 56 did not know and the remainder answered "no". The 324 members made up 24.6 per cent of a total of 1,316 members interviewed. It should, however, be pointed out that about 70 per cent of those responding were members of credit unions which generally offer nearly full services but with some variation from credit union to credit union.

Even in the case where members responded by a "no" to the preceding question, if they made any comments at all for the following related questions, interviewers noted such comments. Although there were only 324 "yes" responses to the lead in question, there were 520 members

who responded to question 35. However 186 of the members responding did not deal with service changes required.

In the responses dealing more directly with services, two areas stand out - savings and loaning services. Improvement in loan services was suggested by 114 members or 34.1 per cent of those directly discussing services. Included were suggestions to speed up the granting of loans, larger and longer terms for mortgage and Farm Improvement loans as well as a lesser emphasis on security needed to obtain a loan.

Under the heading of savings, 53 members or 15.9 per cent of those responding with service needs suggested changes in savings programs. They included such things as higher, more competitive interest rates as well as additional savings programs. In the case of both loans and savings, the members frequently ended their suggestions by adding - like the banks.

The third category numbered 106 member responses or 31.7 per cent of those dealing with services. They suggested a variety of ways of improving services. Included were requests for "banking" services such as safety deposit boxes, night depositories, student loans, endowment plans, the sale of government bonds, utility payments, etc. They mentioned ways to improve the manner in which services were offered by suggesting better staff training, more efficiency, standard interest rates, etc. This catch-all service category merely points out that members of some credit unions are asking for improved service already available in other credit unions.

Two other service requests were sufficiently numerous to be categorized separately. The most numerous, numbering 39 member re-

sponses or 11.7 per cent of the total responses dealing with service needs were requests to develop means to more readily cash cheques outside the local credit union. In a number of cases they referred to credit card service like that offered by the banks. It should be pointed out that at about the time of the survey the Credit Society was developing and offering to credit unions just such a service. CU-CHEK, the copyrighted name of this service offered to credit union members an identification card and guaranteed cheques (negotiable orders). The second category dealt with the need for chequing services and was made by 22 respondents (6.5 per cent), yet in 1969, 240 out of 277 credit unions offered chequing services to their members.

The next question from the survey schedule helps to focus the responses to the preceding two questions. It asked:

40. What in your opinion are the most essential aspects of your credit union?

The member responses to this question tend to verify the earlier emphasis on service while at the same time raising, rather specifically, two other considerations - localism and co-operative philosophy. The most numerous category includes 479 member responses (36.4 per cent of the total) dealing with both localism and co-operative philosophy. These members held that the most important aspect of their credit unions was its local nature as well as the matter of ownership and control. Their responses tended to give generally equal emphasis to both of these aspects although different responses stressed one or the other. This emphasis was further heightened by reference to their ability to be involved fairly directly in credit union activity.

The next most numerous category dealt rather specifically with services. The 465 members in this group responded (35.3 per cent) by pointing out the quality of service which they felt made the credit union important. They included savings and loan services, interest rates, the way service was offered as well as the emphasis on service at cost. Insurance on savings and loans was also held to be important and 66 members (5.0 per cent) stated this insurance was the most important aspect of their credit union. A further 90 members (6.8 per cent) emphasized convenience and the way service was offered. The convenience aspect very frequently included reference to the credit union as the only local bank.

The remaining responses were more diffuse and are listed with their frequency of response. They are: no answer, don't know - 104, 7.8 per cent; credit unions have a concern for people, the small fellow - 27, 2.0 per cent; same as a bank - 45, 3.4 per cent; satisfied - 18; don't use it anymore - 12; no longer follow co-operative principles - 6; miscellaneous - 5.

One of the interviewers²⁷ carrying out interviews in a small declining community in the south of the province noted that during the course of one interview and especially afterward, the member raised a number of points which place this service-localism conflict in perspective. The community was a part of the larger trading area of Assiniboia. Their local consumer co-operative had been amalgamated with the Assiniboia consumer co-operative a necessary move since their own store could no longer offer the service that the store in Assiniboia could offer. Many of the members from his own town had been going to

Assiniboia to shop and were thus making it more and more difficult for the local store to operate. Better roads, the trend to urbanization with its consequences of making rural and urban life styles similar are all factors in these developments. The member knew that the actions of his neighbors and himself in looking for better service or services which their own consumer co-operative or credit union could not offer would eventually further reduce their ability to serve local needs. Yet at the same time he did not want these services or his community to decline since it gave him a feeling of direct participation in his own community.

This view, as stated by one member expresses earlier comments and discussion on centralization as well as the dualism expressed in member interviews. There is a pride in what credit unions have done and are doing for the local community. At the same time, many of these smaller communities are losing their members rapidly. With the decline in population, the credit union loses assets and its ability to offer present or new services which the members feel they need. Centralization, by making the resources of all credit unions available to each unit can extend services at least for a time until the community declines further but it would tend to reduce involvement, control and the feeling of ownership. There is a historical factor of considerable significance in these developments. The people of these communities spent years attempting to gain control of their own resources only to feel they are losing this control due to events beyond their control.

These considerations are more specifically dealt with in two further questions from the member survey. The questions are:

50. Do you consider a credit union to be (HAND CARD "E")

(a) a financial service? _____

(b) a means to serve community needs? _____

(c) a means to help people help themselves? _____

(d) a means to a better way of life? _____

51. Whatever answer to question 50, ask: Why?

The four points listed in question 50 are taken from the conventional views of the role of co-operatives and in this case, particularly credit unions in relation to (a). The first question was used as a lead in to the open ended responses anticipated in question 51. Although the second point refers to community and gives some indication of localism, the strength of emphasis on the "local" was largely unanticipated in the survey.

The responses to question 50 are listed below:

- (1) no answer - 20, 1.5 per cent.
- (2) a financial service - 256, 19.5 per cent.
- (3) a means to serve community needs - 295, 22.4 per cent.
- (4) a means to help people help themselves - 467, 35.5 per cent.
- (5) a means to a better way of life - 179, 13.6 per cent.
- (6) includes 13 different combinations of the four points - 99, 7.5 per cent.

The question following, because of its direct relationship to question 50 led to responses which tended to expand on the view suggested by the initial selection. Thus, the selection of the first point might lead to an extended definition of financial service as being particularly relevant to community needs. This did not happen all the

time but did lead to changes in emphasis. Although factor analysis would have pointed out relationships between the response to question 50 and the resulting explanation it did not seem relevant to the purpose of this study.

The most numerous category of member responses numbered 558, (42.4 per cent) and emphasized local convenience, control and ownership including the attachment to the local community and the fact that resources stay in the community. The service aspect of the only local bank or financial service played a significant part in this emphasis.

The second most numerous series of member responses numbered 360, (27.4 per cent) and dealt with the basic co-operative philosophical position of mutual or self help. The credit union member sees his credit union as a means to assist himself and those involved in the co-operative venture. Indirectly such a view implies group effort to gain control of needed resources.

Service, again, is emphasized by a substantial group of the members responding. The credit union was seen as a financial or bank service by 251 members (19.1 per cent). However an additional 54 (4.1 per cent) members stressed it purely as a helpful service in loans and savings. The remaining 83 (6.3 per cent) responses were divided into: no answer, don't know - 59; a wide range of miscellaneous comments - 24.²⁸

The data presented points out that credit union representatives, due to changing economic and social conditions, felt a need to achieve greater unity and strength through some form of vertical integration or centralization. The member emphasis on service, particularly in the

smaller declining credit unions makes a broader base of operations almost a necessity. The need to control resources through some form of integration, however, contradicts the local autonomy or control of resources. Yet external conflict with other financial institutions almost forces some consideration of integration. The localism emphasis might almost be described as parochialism but long experience has suggested to credit union officials and members that large scale central organizations become highly impersonal and comparatively unresponsive to local needs.

In an effort to achieve greater local control while gaining some of the advantages of greater integration, a new proposal was prepared and submitted to the Board of Directors and eventually in limited form to the delegates of the merged organization. It attempted to set out, as clearly as possible, the responsibilities of local, provincial and inter-provincial bodies in credit union development. Basically it suggested a centrally managed investment pool, more standardization in loaning, savings and operations with a sharing of control in these latter areas between local and provincial bodies.²⁹ A committee was set up to give this alternative further study. At a meeting in Regina on January 6, 1970 which the writer attended, those attending expressed in almost equal numbers, the need for integration as well as local control and autonomy. Generally similar views were expressed by the delegates at a seminar conducted in Regina just after this meeting. Their responses were in relation to a slide presentation setting out three alternatives of credit union development. The alternatives presented were: stay the same; centralization and confederation. No

accurate count was kept but the tenure of discussion reiterated this potential local versus central organization struggle to control resources.³⁰

It should be noted that two developments are presently taking place which are in response to these problems. The first is the increasing frequency of credit union amalgamations in the past year partially due to economic conditions but also as a result of the demand for full services in smaller credit unions. Secondly, legislative amendments have been proposed to give the Mutual Aid Board the ability to take remedial action to offset credit union difficulties while they are still developing. Since the staff of the former League and now the Credit Society carried out the administrative and executive functions of the Mutual Aid Board, they are likely to gain some authority. The amount of authority gained will not, of course, be known until the amendments are enacted, if they are enacted. Up to the present they are still to be considered by credit union representatives in credit union district meetings.

It does not mean that conflict over the control of resources with other financial institutions is now an internal local versus central conflict but rather that external conflict has forced a new form of metropolitan-hinterland conflict. It is now partially in the provincial arena rather than a national-local conflict.

As was noted earlier in this chapter, members and credit union officials, in at least a minimum number of cases, felt that centralization or credit union development itself was leading to the result that credit unions would become just another bank. Yet over against

this they also expressed the view that credit unions were offering local financial or banking services. This paradoxical dualism fore-shadows the philosophical or ideological differences resulting from the credit union financial service orientation.

6. IDEOLOGICAL CONFLICT

To briefly reiterate, ideological or philosophical conflict in the theoretical perspective adopted is rationalization or justification for the way in which conflicts over positions or resources are handled in a given social organization. Secondly, ideology is viewed as a means to stabilize, whether consciously or otherwise, a given situation.

The major difficulty in dealing with ideology or credit union philosophy is the difficulty of determining its specific aspects. Certain recurring aspects have already been stated. One is the distinction between segmented and comprehensive co-operation. To reiterate, comprehensive co-operation views co-operation as a way of life. Segmented co-operation is co-operation to achieve economic ends. The utopian emphasis on co-operation as a way of life is reflected in the proliferation of co-operative organizations which are members of the credit society. On the other hand, the credit union members who emphasize loan and savings services are viewing co-operative as a way to achieve economic ends. This emphasis on credit unions as a financial or banking service is in direct philosophical conflict to the mutual or self help emphasis. This latter emphasis, by its very nature, demands a limited, knowable community or group.

The merger, the proposals for centralization, regionalization or confederation are planned changes to rationalize credit union operations

to achieve greater control over available resources. Despite the fact that this case study has tended to analytically isolate Saskatchewan credit unions, this particular ideological conflict points out the overlapping consensus with the larger society. The credit union conflict over personal involvement in mutual and self help organizations versus bureaucratic or administrative efficiency is mirrored by supporters of both views in, at least, the Canadian society.

The localized versus centralized control issue also has philosophical implications mirrored in the total society. Since co-operatives were based on the principle of meeting local needs through local resources whether financial or human, the practical service need for integration strongly implies greater central control. In addition, as the credit unions grew in size the principle of relying on volunteers could no longer meet the needs of complex organizations. The volunteers with less information because of less involvement in the operational activities of credit unions are at a disadvantage in relation to the professional, skilled staff.

The underlying philosophical or ideological principle raised in the preceding paragraphs relates to a very fundamental co-operative philosophical position, namely democratic control. Ignoring the bottomless labyrinth of attempting to define democracy other than to assume that it involves some means of member participation in political decision making or control, democracy is as theoretically possible in a large, centralized group or unitary state as it is in a small group or a federation of smaller groups. There are as many symptoms of a feeling of powerlessness in relation to "big" government in smaller voluntary groups and fraternal associations as in national government.

Whether democratic control is more effective in a small, comparatively homogeneous group in a smaller community or social group is not the point in question. People in smaller communities, because of personal contact with a large segment of the group or community, are more likely to feel that they can control the local credit union. Not only are they likely to know who the credit union directors are but they are likely to know one or more personally. Whether or not democratic control would be effective in a large centralized credit union, much of the personal knowledge and contact would be gone. Saskatchewan people have experience with large, centralized organizations such as the larger school unit, hospital unit and the Wheat Pool. The question is not whether democratic control is less effective in a larger organization but whether people feel it is effective. In the initial centralization interviews several people expressed the concern that control would be lost in a larger organization such as those mentioned. This was also raised at the delegate seminar in January, 1970. They point out the feeling of the potential loss of control in a large centralized organization.

The sample of credit union members were asked the following question:

36. If you wanted changes made in the way your credit union operates or in the kind of services it gives, do you feel you could get them made?

Yes _____ No _____

The responses were:

- (a) no answer - 37, 2.8 per cent.

- (b) yes - 700, 53.2 per cent
- (c) no - 445, 33.8 per cent
- (d) don't know - 126, 9.6 per cent
- (e) maybe,
doubt it - 8, .6 per cent

Although this question does not deal directly with democratic participation in decision making, it does ask credit union members whether they feel or think they could make wanted changes or in other words take part in the decision making process. The majority of those members responding feel they can make changes. Although there are no comparative figures for other kinds of social organizations, one wonders whether the proportion feeling changes were possible in national or provincial government would be as high or even as high in a centralized credit union.

The pressure for credit union rationalization - a more complex, integrated credit union organization with a geographically distant central office might be just as controllable as present credit union structures. No matter how well it was structured the extended communication lines would increase the time for effective local response. Part of the reason for this increased time lag is the need to calculate the cost of proposed changes. The changes could still be made and probably be made more effectively, but would the feeling of the ability to make changes still be as high? The feeling of the ability to make change is no criteria of the ability to make changes. However if people feel they can make changes, they will at least try to make changes. On the other hand, if they feel they cannot make changes, they probably won't try.

The proposed changes in credit union structure and functions are raising questions about the ideological or philosophical principles of co-operation. Basically the rationalization deals with the question of whether credit unions should develop in the same way as the financial institutions they attempted to replace or should they continue to follow their own initial development patterns. This conflict results from the struggle to gain control of resources and to handle the conflict of relative position in relation to banks. If some form of integration occurs, philosophical principles will have to be adapted to justify or rationalize the new structure and functions.

FOOTNOTES

¹Talcott Parsons, The Social System, (New York, The Free Press of Glencoe, 1951), Pp. 482, 493.

²A brief description of the formation of The Co-operative College Residences (Saskatchewan) Limited in July, 1966 is contained in The 26th Annual Report of the Saskatchewan Co-operative Credit Society Saskatoon, March 7, 1967, Pp. 5, 10.

³Karl Mannheim, Ideology and Utopia, (New York, Harcourt, Brace & Co., Harvest Books, 1936), P. 40.

⁴Directors Report Credit Union League of Saskatchewan, Saskatoon, March 4-5, 1964, Pp. 16-17.

⁵Directors Report 1964, Regina, Ibid., Pp. 24-26.

⁶Directors Report 1965, Saskatoon, Ibid., Pp. 22, 23.

⁷Directors Report 1966, Saskatoon, Ibid., P. 25.

⁸From the Presentations of League, Credit Society, Co-operative Trust & Department of Co-operation and Minutes of the 1966 Credit Union League District Meetings.

⁹Minutes of the Planning Committee Meeting of the Credit Union League of Saskatchewan held June 11, 1966, P. 1.

¹⁰Minutes of the Regular Meeting of the Board of Directors of the Credit Union League of Saskatchewan held in the Co-op Block Board Room, Regina, June 24, 25, 1966, Pp. 4, 5.

¹¹P.S. Ross & Partners, The Future Role and Organization of the Credit Union League of Saskatchewan and the Saskatchewan Co-operative Credit Society: Findings and Recommendations, (Winnipeg, 1967).

¹²Report by the Joint Committee of the Credit Society and Credit Union League on the P.S. Ross Recommendations, March 8, 1968.

¹³Annual Meeting Proceedings Credit Union League of Saskatchewan, Regina, April 1, 1968, Pp. 11, 12, 24-26.

¹⁴DATA from interviews is taken from the original interview forms as well as the summaries developed by the writer from the original data at the time of the interviews in June, 1968.

¹⁵Minutes of the Joint Board of Directors of the Saskatchewan Co-operative Credit Society and the Credit Union League of Saskatchewan, May 25, 1968, Holiday Inn, Regina, Saskatchewan.

¹⁶Minutes of the Joint Board of Directors of the Saskatchewan Co-operative Credit Society and the Credit Union League of Saskatchewan, May 25, 1968, Holiday Inn, Regina, Saskatchewan.

¹⁷Merger of the Credit Union League of Saskatchewan and The Saskatchewan Co-operative Credit Society, Undated pamphlet.

¹⁸From notes taken by the writer on the discussions, proposals, suggestions pertaining to both merger and centralization at the 12 credit union district meetings, Saskatchewan, October 15 to 30, 1968.

¹⁹Report to the Annual Meeting Re: A Centralized Credit Union, Saskatoon, March 31 - April 1, 1969.

²⁰Annual Meeting Proceedings 31st Annual Meeting Credit Union League of Saskatchewan, Saskatoon, April 1, 1969, Pp. 27, 28.

²¹Ibid., Pp. 8-11. AND observation of the writer.

²²Credit Union Alert, No. 3, June 2, 1969. Data for this report to credit unions was gathered by the writer and Glen Mellis, of The Credit Union Research Council.

²³Norm Bromberger, Professor Fred Anderson's Address for the Credit Union Meetings on Liquidity, Moose Jaw: June 18, 1969, Saskatoon: June 19, 1969, (Regina, Credit Union Research Council, July 31, 1969). It also includes introductory comments and summaries of the meetings.

²⁴Credit Union Alert, No. 2, May 31, 1968.

²⁵For more details on method including pre-test and interview training procedures see Norman A. Bromberger, Saskatchewan Credit Union Member Survey, (Regina, Credit Union Research Council for The Saskatchewan Co-operative Credit Society, Dec., 1969), Chap. II, Pp. 4, 9.

²⁶Norman A. Bromberger, Sherwood Credit Union Member Survey, (Regina, Credit Union Research Council for Sherwood Credit Union, Oct., 1967), P. 3.

²⁷This data obtained from the notes of and in conversation with Mr. Dave Hawkes, the interviewer in this situation.

²⁸Numerical data was taken from the raw frequency tabulations.

²⁹Baldur Johnson & Norm Bromberger, Confederation, (Regina, Sept. 8, 1969), 11 pages.

³⁰Personal observation of the writer.

CHAPTER VII

CONCLUSIONS

This case study has emphasized the role of conflict over the control of resources and/or positions in the development of credit unions in Saskatchewan. The conflict-process model which was used as a control for presenting data pointed out an unanticipated, though now rather obvious conclusion. Through direct participation, the writer had been aware of the differences of opinion among credit union representatives arising out of the centralization proposal. Yet the significance of these differences of opinion for the future development of credit unions did not become clear until the study neared completion. It became increasingly obvious that external conflict relations were forcing adjustments on the credit unions which made internal conflicts more significant.

In simplified form this internal conflict is the inherent contradiction between organizational rationality, specialization and co-ordination versus the ideological emphasis on member participation, control and local autonomy. These contradictions began to develop early in credit union history but now have become the parameters within which decisions about the future development of credit unions must be made. It is not an exaggeration to suggest that the solution of this dilemma, whatever form it may take, is the major problem facing credit union representatives in the 1970's.

1. THE DEVELOPMENT DILEMMA

Before beginning a brief discussion of relevant organizational theory, the characteristics of the dilemma will be re-stated. Credit unions in Saskatchewan originated at a time when credit, sources of credit and "banking" services were drying up or moving out. As a result their development in Saskatchewan was comparatively unique. Services were developed mainly to meet the needs of people in smaller farm communities. Initially, they emphasized their role as credit grantors. At the same time in response to genuine need, they began offering "banking" services to their members. Under these conditions, rapid growth was assured.

As economic conditions began to improve, other financial intermediaries came back into the Saskatchewan market. The vacuum in which credit union growth occurred no longer existed for competition became an environmental fact. In the early 1960's banks moved into the consumer lending field once virtually a credit union monopoly in the province. Due to changing economic conditions competition over savings also intensified.

Two factors require reiteration since they have become increasingly significant. They are discernible in early development patterns. First, credit unions in response to member needs developed an orientation to service. Second, their success was closely related to their local nature where the member could participate directly and exercise some control. All the savings came from local people and loans, too, were made to local people. Services were, in other words, formed to meet local needs. The early emphasis on service led to a growing need for

occupational specialization and skilled staff to fill these positions. Although management and staff could and did create organizational problems from time to time, generally, by the very nature of the services offered, they were seen as problem solvers in a local setting. The dilemma of organizational efficiency versus program effectiveness is a part of credit union history.

As competition intensified, representatives of credit unions proposed a variety of structural changes to meet the problem. The merger of two credit union central organizations was a means to strengthen the emphasis on specialization, professionalization and coordination. Centralization would have carried this rationalization process even further except that it came into sharp contradiction with democratic ideology.

Credit unions, because of their relative size must follow if not exceed the practices of their competitors since they do not have the economic power to set the rules of the competition. The banks, because of their relative and absolute share of the market as well as their legal connections to the monetary system can and frequently do take the lead in setting financial intermediary practices. For this reason credit unions, in order to reduce costs and maximize income, require greater operational coordination: to make use of technological advances such as computer accounting, to set standardized competitive rates, to make use of economies of scale, etc. In the process they could lose one relative advantage, namely responsiveness arising from local autonomy and control. Partly, the dilemma arises because some of the external conflict is becoming institutionalized competition which

forces credit unions to adopt rational business practice to meet this competition. Credit unions, it seems, can no longer afford the former advantage of being different but must instead attempt to be better at doing the same thing.

2. THE DILEMMA AND ORGANIZATIONAL THEORY

Selznick, in one short paragraph summarizes the dilemma as it is stated in the preceding analysis.

'In venturing this interpretation, we are pointing to some of the significant problems which must be faced when the attempt is made to combine democracy and planning. For planning implies large-scale intervention and the extended use of organizational instruments. If such concepts as "democracy" are to be more than honorific symbols which mobilize opinion, it is essential to make explicit forces which will operate to qualify and perhaps transform the democratic process.'

Credit unions have no single organization which has either the authority or influence to make or coordinate an overall plan of development. Even if a plan were developed, the officials of any credit union can veto such a plan by following their own course of action. Centralization or any similar form of vertical integration would make rational planning and development possible but at the same time raise the problem of administrative domination.

There is no obvious or simple solution to this dilemma. Emphasis on organizational rationality, efficiency and integration through a mechanism such as centralization will lead to a significant reduction in participation and control. A continued emphasis on local autonomy can lead to equally undesirable results. If present trends in credit union

amalgamation continue and there is no reason to suggest they won't, the result will probably be five or six unplanned, largely uncoordinated, regional credit unions. It would be small scale centralization without the added advantage of provincial unity in the face of external competition. Deliberate, planned change involving greater integration seems to be a necessary condition of survival.

Without offering a solution, it is possible to point out sources of tension which are part of the environment in which change can occur and which would have to be taken into account in planned change. Selznick suggests three:

- (a) Ideology is not just a set of beliefs but frequently expresses other needs of those participating.
- (b) There is an area of ambiguity between local and central power for those who can mobilize resources can shape the role and character of the governing instruments.
- (c) Democratic participation and control is constantly converted or broken down into administrative involvement.²

Earlier the emphasis on democratic participation and local autonomy was described as having an ideological basis. These beliefs are, in some sense, rationalizations helping to maintain present conditions. Selznick suggests that ideology can also serve the special needs of individuals and sub-groups. From this perspective, some of the opposition to operational integration can be viewed as arising out of self-interest. There is every likelihood that elected officials and management from some of the credit unions are concerned about their roles in a centralized credit union organization. There can be little doubt that the substantial power of local groups would be considerably reduced in a larger,

integrated organization. Yet local power can be used to shape the role and character of the central governing body as well as that of the administrative structure. Local power and self-interest can, thus, not be dismissed as empty efforts to conserve present conditions. It can, in fact, be part of the dynamic process of increasing central power while at the same time acting as a check on it. On the other hand, an excessive emphasis on local power will deny to the central organization the power and resources to plan and carry out further development. If credit unions are to avoid continued domination by local groups or domination by central power in an integrated organization, they will have to devise a means of balancing the power of both groups.

Selznick's last point deals with the concept of coöptation which he defines as: "the process of absorbing new elements into the leadership or policy-determining structure of an organization as a means of averting threats to its stability or existence."³ This process has frequently been used by organizational leaders to silence critics for there is no better way to make them ineffective than by deeply involving them in the intricacies and complexities of the administrative structure. To some extent it is a necessary process since stability is essential to organizational planning and development. It is probably an easier process to carry out in larger organizations since there are more potential advisory and administrative positions to fill. Nevertheless potential sources of criticism must also be retained or stability may turn into inertia.

The three sources of tension occur in any democratic organization. They are as real in present credit union structures as they would be in

a more integrated one. The difference, whether by design or accident, is that mechanisms are available to handle them in the present situation. The autonomy of each credit union is a realistic check on the power of the larger ones. Any decision ostensibly made to bind the whole group to a particular course of action can be nullified by independent action. Yet it seems essential for credit union representatives to develop methods to deal with these sources of tension while working toward more organizational rationality and retaining enough local autonomy and control to retain the present characteristics of credit unions.

3. CONCEPTUAL AND METHODOLOGICAL REFINEMENTS

Although the conflict-process perspective used in this study has dealt with ideological conflicts, this is obviously one area which requires further refinement. The perspective has ignored value conflicts. The position that ideology is a rationalization or justification of existing situations or structures is reasonably satisfactory. Values, customs and traditions which embody particular rationalizations fit into the concept of ideology, however ideology must be re-defined to become more inclusive - as a rationalization or justification system. Once this is done values can readily be included in such a system. This can be done by adding two additional statements to the series of five statements describing the properties of conflict relations. They would take the following form:

| | |
|---------------------|---|
| <u>Statement 3A</u> | Parties attaining relative control of positions or resources develop values which legitimate their control. |
|---------------------|---|

Statement 3B Values together with historical traditions form rationalization systems through which relative position or control of resources can be maintained.

Conflict over values in such a framework would be an attempt to change the rationalization system which justifies a particular allocation system. It is therefore still directly related to the conflict over the control of positions and/or resources.

In a comparative study of conflict relations it would be necessary to operationally define concepts such as resources or positions. Resources could be operationally defined to include organizational inputs which are functionally necessary to achieve organizational purposes or ends. With this more specific definition many of the resources could be measured in conventional economic units such as monetary value, number or size of sub-units, etc. Position would be less difficult to conceptualize and measure since it could be measured in relative scalar terms. Thus in production organizations the size of market would be one way to establish relative position. The point is that all concepts would have to be more rigidly specified so that comparisons could be made between the units under study.

4. FURTHER RESEARCH

This study has been an attempt to stress the need for examining both internal and external conflict relations in complex organizations. It is intended as a very modest beginning for further research in this kind of perspective. Three potential areas for further research seem to be suggested as a result of this study.

The first and most obvious need is to carry out comparative studies using the conflict-process perspective. This kind of study would help to further develop the theory, concepts and methods outlined in this study. Included is the need to deal more extensively with conflicts over values and with methods to measure variables. A comparative study would beyond doubt raise problems and facts not even anticipated in this study.

The second area of further study and research is to work toward an effective synthesis of the conflict-consensus perspectives. As these perspectives are used in this study, they tend to suggest polar rather than complementary relationships between the perspectives. It seems obvious that without concensus or cohesion to hold an organization together there would be no possibility of social conflict.

The last area for further study results from the writer's interpretation of the key assumptions underlying the two perspectives. As has been suggested earlier, order seems to be a necessary condition of social organization. Without social order it is hardly possible to imagine any kind of social organization. There would be no response and interaction predictability and each step of even the simplest group task would be totally unpredictable and hence unattainable.

It seems almost redundant to suggest that order is necessary to social organization yet it is an implicit assumption underlying most theories of social organization. In the consensus perspective order is assumed to be achieved through value concensus and in the conflict perspective it is achieved through dominance relationships. Yet neither theory explicitly states this fundamental assumption of order as necessary to social organization.

There is no attempt to deny the validity of other social organization theories but the consensus and the conflict perspective respectively point out the need for stability and change in a social organization. The third area of further study should be directed toward establishing both theoretical and empirical relationships between, order, stability and change.

From the perspective adopted in this study further research must deal with complex relations in social organizations. Three possible directions for such research have been suggested. Further research following any of these general research proposals would beyond doubt clarify the perspective and in turn suggest further research problems.

FOOTNOTES

¹Philip Selznick, TVA and The Grass Roots, (Berkeley, Univ. of California Press, 1953), P. 264.

²Ibid., Pp. 264-265.

³Ibid., P. 13.

BIBLIOGRAPHY

A. BOOKS AND JOURNALS

- Barnard, Chester I. The Functions of the Executive. Cambridge: Harvard University Press, 1968.
- Bergengren, Roy F. Cooperative Banking - A Credit Union Book. New York: The MacMillan Co., 1923.
- Black, Norman Fergus. History of Saskatchewan. Vol. 1, Regina: Saskatchewan Historical Co., 1913.
- Blau, Peter M. Exchange and Power in Social Life. New York: John Wiley & Sons Inc., 1964.
- _____ and Scott, Richard M. Formal Organizations. San Francisco: Chandler Publishing Co., 1962.
- Britnell, G.E. The Wheat Economy. Toronto: University of Toronto Press, 1939.
- _____ and Fowke, V.C. Canadian Agriculture in War and Peace. Stanford: Stanford University Press, 1962.
- Buckley, Walter. "Society as a Complex Adaptive Process" in Walter Buckley (Ed.) Modern Systems Research for the Behavioral Scientist. Chicago: Aldine Publishing Co., 1968.
- _____. Sociology and Modern Systems Theory. Englewood Cliffs: Prentice-Hall Inc., 1967.
- Clements, Muriel. By Their Bootstraps. Toronto: Clarke Irwin & Co., 1965.
- Cook, Alice H. Union Democracy: Practice and Ideal. Ithaca: Cornell University, 1963.
- Coser, Lewis S. The Functions of Social Conflict. New York: The Free Press of Glencoe, 1956.
- Crozier, Michel. The Bureaucratic Phenomena. Chicago: University of Chicago Press, 1964.
- _____. "Social Conflict and the Theory of Social Change" in The British Journal of Sociology. Vol. 8, Sept., 1957.

Dahrendorf, Ralf. Class and Class Conflict in Industrial Society.
Stanford: Stanford University Press, 1959.

_____. Society and Democracy in Germany. Garden City:
Doubleday & Co. Inc., Anchor Books, 1967.

Davis, Arthur K. "Canadian Society and History as Hinterland vs.
Metropolis" in (to be published 1971).

Easterbrook, W.T. Farm Credit in Canada. Toronto: University of
Toronto Press, 1938.

_____ and Aitken, Hugh G.J. Canadian Economic History. Toronto:
MacMillan Co. of Canada Ltd., 1956.

Easton, David. A Framework for Political Analysis. Englewood Cliffs:
Prentice-Hall Inc., 1965.

Etzioni, Amitai. A Comparative Analysis of Complex Organizations.
New York: The Free Press, 1961.

Fowke, Vernon C. Canadian Agricultural Policy: The Historical
Pattern. Toronto: University of Toronto Press, 1946.

Hardy, W.G. From Sea Unto Sea. Garden City: Doubleday & Co. Inc.,
1960.

Hobbes, Thomas. Leviathan. London: Collier MacMillan Ltd., 1962.

Horowitz, Irving Louis. "Consensus, Conflict and Cooperation: A
Sociological Inventory" in Social Forces. No. 41, Dec. 1962.

Howard, Joseph Kinsey. Strange Empire. Toronto: Swan Publishing
Co. Ltd., 1952.

Hughes, Everett C. Men and Their Work. Glencoe: The Free Press,
1958.

Jamieson, A.B. Chartered Banking in Canada. Toronto: The Ryerson
Press, 1953.

Leiserson, William A. American Trade Union Democracy. New York:
Columbia University Press, 1959.

Lipset, Seymour Martin. Union Democracy. Garden City: Doubleday
& Co. Inc., Anchor Books, 1956.

_____. Political Man. Garden City: Doubleday & Co. Inc.,
Anchor Books, 1959.

- _____. Agrarian Socialism. Garden City: Doubleday & Co. Inc., Anchor Books, 1968.
- Mack, Raymond W. and Snyder, Richard C. "The Analysis of Social Conflict: Toward an Overview and Synthesis" in Journal of Conflict Resolution. Vol. 1, No. 2, 1957.
- Mackintosh, W.A. The Economic Background of Dominion-Provincial Relations. Toronto: McClelland & Stewart Ltd., 1954.
- _____. Economic Problems of the Prairie Provinces. Vol. 4 of W.A. Mackintosh and W.L.G. Joerg, Eds., Canadian Frontiers of Settlement. Toronto: MacMillan Co. of Canada Ltd., 1935.
- Magrath, C. Peter. "Democracy in Overalls: The Futile Quest for Union Democracy" in Industrial and Labour Relations Review. Vol. 12, July, 1959.
- Manis, Jerome G. and Meltzer, Bernard N. Symbolic Interaction: A Reader in Social Psychology. Boston: Allyn & Bacon, 1967.
- Mannheim, Karl. Ideology and Utopia. New York: Harcourt, Brace & Co., 1936.
- Marx, Karl and Engels, Friedrich. "Manifesto of the Communist Party" in Lewis S. Feuer, Ed., Marx and Engels. Garden City: Doubleday and Company Inc., 1959.
- McNaught, Kenneth. The Pelican History of Canada. Middlesex: Penguin Books Ltd., 1969.
- Merton, Robert K. Social Theory and Social Structure, Rev. and enlarged Ed. New York: The Free Press of Glencoe, 1957.
- Michels, Robert. Political Parties. New York: Collier Books, 1962.
- Moore, Wilbert E. Order and Change. New York: John Wiley & Sons Inc., 1967.
- More, Thomas. "Utopia" in James J. Greene and John P. Dolan, Ed., The Essential Thomas More. New York: New American Library, 1967.
- Mouzelis, Nicos P. Organisation and Bureaucracy. Chicago: Aldine Publishing Co., 1967.
- Newcombe, Theodore M. "The Study of Consensus" in Robert K. Merton, Leonard Broo, and Leonard S. Cottrell, Jr., eds., Sociology Today. New York: Basic Books Inc., 1959.

- Olson, Marvin E. The Process of Social Organization. New York: Holt, Rinehart and Winston, 1968.
- Ostergaard, G.H. and Halsey, A.H. Power in Co-operatives. Oxford: Blackwell, 1965.
- Parsons, Talcott. The Social System. New York: The Free Press of Glencoe, 1951.
- _____. "The Point of View of the Author" in Max Black, Ed., The Social Theories of Talcott Parsons. Englewood Cliffs: Prentice-Hall Inc., 1961.
- Patton, Harald S. Grain Grower's Cooperation in Western Canada. Cambridge, Harvard University Press, 1928.
- Polsky, Ned. Hustlers, Beats and Others. Garden City: Doubleday & Co. Inc., Anchor Books, 1967.
- Presthus, Robert. The Organizational Society. New York: Random House, 1962.
- Ryerson, Stanley B. Unequal Union. Toronto: Progress Books Ltd., 1969.
- Seidman, Joel S. The Brotherhood of Railway Trainmen: The Internal Political Life of a National Union. New York: John Wiley & Sons Inc., 1962.
- Selznick, Philip. TVA and The Grass Roots. Berkeley, Univ. of California Press, 1953.
- Sharp, Paul F. The Agrarian Revolt in Western Canada. Minneapolis: University of Minnesota Press, 1948.
- Simmel, Georg. Conflict and the Web of Group Affiliations. Trans. by Kurt H. Wolff and Reinhard Bendix, New York: The Free Press, 1955.
- Spiro, Melford E. Kibbutz: Venture in Utopia. New York: Schocken Books, 1956.
- Thompson, James D. Organizations in Action. New York: McGraw-Hill Book Co., 1967.
- _____. "Organizational Management of Conflict" in Administrative Science Quarterly. Vol. 4, 1959-60.
- Tillich, Paul. "Critique and Justification of Utopia" in Frank E. Manuel, Ed., Utopias and Utopian Thought. Boston: Bacon Press, 1965.

Urquhart, M.C. and Buckley, K.A.H., (Eds.) Historical Statistics of Canada. Toronto: The MacMillan Co. of Canada Ltd., 1965.

Van Den Berghe, Pierre L. "Dialectic and Functionalism: Toward A Theoretical Synthesis" in American Sociological Review. Vol. 8, No. 5, Oct., 1963.

Webb, Walter Prescott. The Great Plains. New York: Grosset & Dunlap, 1931.

Weber, Max. "Bureaucracy" in H.H. Gerth and C. Wright Mills, Trans. and Ed., From Max Weber: Essays in Sociology. New York: Oxford University Press, 1958.

_____. "Some Consequences of Bureaucratization" in Lewis A. Coser and Bernard Rosenberg, Eds., Sociological Theory: A Book of Readings. New York: The MacMillan Co., 1957.

Wolff, Henry W. People's Banks. London: P.S. King & Son, 1910.

Wright, J.F.C. Prairie Progress. Saskatoon: Modern Press, 1956.

_____. The Louise Lucas Story. Montreal: Harvest House, 1965.

B. GOVERNMENT PUBLICATIONS

Department of Co-operation and Co-operative Development. Supplement to the Annual Report. Regina: 1969.

_____. Annual Report of the Department of Co-operation and Co-operative Development of the Province of Saskatchewan. Regina: Government of The Province of Saskatchewan, 1945, 1946, 1947, 1950, 1964, 1965.

Dominion Bureau of Statistics. The Canada Year Book. Ottawa: Queens Printer, 1938, 1941, 1942.

Dominion of Canada. "Vol. II Life Insurance Companies" in Report of the Superintendent of Insurance. Ottawa: Queens Printer, 1928, 1929, 1931, 1933, 1935, 1937.

Government of Saskatchewan. The Credit Union Act Revised Statutes of Saskatchewan 1965. Regina: Queens Printer, 1965.

Larmour, Jean and Boucher, G.P. Cooperative Credit in Saskatchewan. Regina: Government of the Province of Saskatchewan, 1951.

Mercure, Gilles. Credit Unions and Caisses Populaires. Ottawa: Working paper prepared for the Royal Commission on Banking and Finance, 1962.

Report of the Royal Commission on Co-operatives. Ottawa: Kings Printer, 1945.

1964 - Report of the Royal Commission on Banking and Finance. Ottawa: Queens Printer, 1965.

Report of the Royal Commission on Dominion-Provincial Relations
Canada: 1867-1939. Books 1-3. Ottawa: Kings Printer, 1940.

C. PUBLICATIONS OF OTHER ORGANIZATIONS

McCrorie, James N. In Union is Strength. Saskatoon: Centre for Community Studies, 1964.

McIvor, R. Craig. Recent Growth in Canadian Co-operatives. Toronto: Canadian Tax Foundation, 1962.

Yates, S.W. The Saskatchewan Wheat Pool. Saskatoon: United Farmers of Canada, Saskatchewan Section Ltd., 1940.

D. CO-OPERATIVE AND CREDIT UNION PUBLICATIONS

Arnason, Dr. B.N. History, Philosophy and Development of the Credit Union Movement in Saskatchewan. Regina: Address to the Delegates at the 21st Annual Meeting of the Credit Union League of Saskatchewan, 1959.

Bromberger, Norman A. Sherwood Credit Union Member Survey. Regina: Credit Union Research Council, 1967.

_____. Saskatchewan Credit Union Member Survey. Regina: Credit Union Research Council, 1969.

_____. Professor Fred Anderson's Address for the Credit Union Meetings on Liquidity, Moose Jaw: June 18, 1969, Saskatoon: June 19, 1969. Regina: Credit Union Research Council, 1969.

Craig, John G. A Co-operative Democracy: A Case Study of Saskatchewan Wheat Pool. Seattle: Unpublished M.A. Thesis, University of Washington, 1969.

CUNA International, Inc. International Credit Union Yearbook.
Madison: CUNA Int. Inc., 1966.

Davidovic, George. Reformulation of the Co-operative Principles.
Ottawa: The Co-operative Union of Canada, 1966.

Directors Report to the Credit Union Federation of Saskatchewan.
Regina: 1942, 1944.

Finance News Letters. Regina: Saskatchewan Co-operative Credit Society,
1962.

Royal Commission on Banking and Finance Brief Submitted by Canadian
Co-operative Credit Society, 1962.

Saskatchewan Co-operative Credit Society. Annual Reports. 1944, 1946,
1947, 1967, 1968.

The Credit Union Federation of Saskatchewan. Annual Meeting Minutes.
1939, 1940, 1942, 1944, 1946.

The Credit Union League of Saskatchewan. Director's Report. 1964,
1965, 1966, 1968.

_____. Annual Meeting Proceedings. 1964,
1965, 1966, 1968.

The Credit Union Way. Regina: Credit Union League of Saskatchewan,
1946-1948, 1958, 1959, 1969, 1970.

To the Royal Commission on Banking and Finance: A Brief. Regina:
Credit Union League of Saskatchewan, 1962.

B29971